IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) ADDRESSEES OUTSIDE OF THE UNITED STATES WHO ARE NON-US PERSONS

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering memorandum (the "Offering Memorandum"). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Citigroup Global Markets Inc., Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, Mizuho Securities USA LLC, Agricultural Bank of China Limited Hong Kong Branch, Merrill Lynch (Asia Pacific) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CCB International Capital Limited, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, Société Générale, Standard Chartered Bank, UBS AG Hong Kong Branch and United Overseas Bank Limited (collectively, the "Initial Purchasers") that (1) either (i) you and any customers you represent are non-U.S. persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and, to the extent you purchase the securities described in the attached Offering Memorandum you will be doing so pursuant to Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or (ii) you are acting on behalf of, or you are, a qualified institutional buyer ("QIB"), as defined in Rule 144A under the Securities Act, and (2) you consent to delivery of the attached Offering Memorandum and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers nor any of their respective employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

Restrictions: The attached Offering Memorandum is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Memorandum. You are reminded that the information in the attached document is not complete and may be changed.

THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer or guarantor of the securities or any Initial Purchaser to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute a general advertisement or general solicitation (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act) in the United States or elsewhere.

You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions that You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING MEMORANDUM

Sinopec Group Overseas Development (2018) Limited

(incorporated in the British Virgin Islands with limited liability)

US$750,000,000 3.750% Senior Notes Due 2023
US$500,000,000 4.125% Senior Notes Due 2025
US$750,000,000 4.250% Senior Notes Due 2028
US$400,000,000 4.600% Senior Notes Due 2048

unconditionally and irrevocably guaranteed by

CHINA PETROCHEMICAL CORPORATION
中国石油化工集团有限公司

(a state-owned limited liability company incorporated in the People's Republic of China)

The US$750,000,000 3.750% Senior Notes due 2023 (the "2023 Notes"), the US$500,000,000 4.125% Senior Notes due 2025 (the "2025 Notes"), the US$750,000,000 4.250% Senior Notes due 2028 (the "2028 Notes") and the US$400,000,000 4.600% Senior Notes due 2048 (the "2048 Notes", and together with the 2023 Notes, the 2025 Notes and the 2028 Notes, the "Notes") will be the unsubordinated senior obligations of Sinopec Group Overseas Development (2018) Limited (the "Issuer"). The 2023 Notes, the 2025 Notes, the 2028 Notes and the 2048 Notes will bear interest at a rate of 3.750%, 4.125%, 4.250% and 4.600% per year, respectively. Interest on the Notes will accrue from September 12, 2018. Interest will be paid on the Notes semi-annually in arrears on March 12 and September 12 and of each year, beginning on March 12, 2019. Unless previously repurchased, cancelled or redeemed, the 2023 Notes, the 2025 Notes, the 2028 Notes and the 2048 Notes will mature on September 12, 2023, September 12, 2025, September 12, 2028 and September 12, 2048 respectively.

Pursuant to the Approval by the National Development and Reform Commission on the Foreign Debt Scale of the Enterprises of Foreign Debt Scale Management of 2018 (國家發展改革委關於2018年度外債規模管理企業外債規模的批覆) (the "Pilot Approval") issued by the National Development and Reform Commission of the PRC (the "NDRC") on February 9, 2018, separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the aforesaid quota, but the Company is still required to file with the NDRC the requisite information on the issuance of the Notes within 10 business days after the settlement of such Notes. The Company intends to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the Pilot Approval and any relevant rules and regulations from time to time issued by the NDRC.

Under the Notice on the Promulgation of the Provisions on Foreign Exchange Administration of Cross-border Guarantee issued by the State Administration of Foreign Exchange (the "SAFE") on May 12, 2014, effective from June 1, 2014 (the "Cross-border Guarantee Provisions"), we are required to register the Guarantees with the Beijing Branch of the SAFE (the "Beijing Branch") as a procedural matter within 15 Beijing business days after the date of execution of the Guarantees. We will use our commercially reasonable best efforts to complete the registration of the Guarantees with the Beijing Branch.

The Notes will be irrevocably and unconditionally guaranteed (the "Guarantees") by China Petrochemical Corporation (the "Company" or the "Guarantor").

The Issuer may redeem the Notes at any time upon the occurrence of certain tax events. At any time, the Issuer or the Company may, at the Company's option, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to the redemption date.

The Notes will rank *pari passu* with all of the Issuer's other existing and future unsubordinated obligations and will be effectively subordinated to its secured obligations. The Guarantees will rank pari passu with all of the Company's other existing and future unsubordinated obligations and will be effectively subordinated to its secured obligations and the obligations of its subsidiaries.

Investing in the Notes involves risks. See "Risk Factors" beginning on page 23.

The Notes are expected to be assigned a rating of "A1" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody's. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Application will be made to The Stock Exchange of Hong Kong Limited (the "SEHK") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the SEHK and in the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong) (together, "Professional Investors") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Issuer and the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Issuer has received an eligibility letter from the SEHK for listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. The SEHK assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained in this offering memorandum. Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Notes, the Guarantees, the Issuer or the Company.

Offering Price for the 2023 Notes: 99.459% of principal amount plus accrued interest from September 12, 2018
Offering Price for the 2025 Notes: 99.555% of principal amount plus accrued interest from September 12, 2018
Offering Price for the 2028 Notes: 99.164% of principal amount plus accrued interest from September 12, 2018
Offering Price for the 2048 Notes: 100.000% of principal amount plus accrued interest from September 12, 2018

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other place. Accordingly, the Notes and the Guarantees may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as such terms are defined under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes and the Guarantees may be offered and sold only to (1) persons who are qualified institutional buyers ("Qualified Institutional Buyers") (as defined in Rule 144A under the Securities Act) purchasing for their own account or the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A; or (2) non-U.S. persons (as defined in the Securities Act) in offshore transactions in reliance on Regulation S under the Securities Act, and in accordance with any other applicable law. Prospective purchasers are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on resales and transfers, see "Transfer Restrictions."

It is expected that delivery of the Notes will be made to investors in book-entry form through the facilities of the Depository Trust Company on or about September 12, 2018.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Citigroup	**Goldman Sachs (Asia) L.L.C.**	**Bank of China**	**HSBC**	**ICBC International**	**Mizuho Securities**

Joint Lead Managers and Joint Bookrunners

Agricultural Bank of China Limited Hong Kong Branch	Bank of America Merrill Lynch	Bank of Communications	CCB International	Crédit Agricole CIB	DBS Bank Ltd.
J.P. Morgan	Morgan Stanley	Société Générale Corporate & Investment Banking	Standard Chartered Bank	UBS	UOB

Offering Memorandum dated September 5, 2018.

NOTICE TO INVESTORS

Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

PRIIPs REGULATION / PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

This offering memorandum has been prepared by the Issuer and the Company solely for use in connection with the proposed offering of the Notes. Both the Issuer and the Company, as well as Citigroup Global Markets Inc., Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, Mizuho Securities USA LLC, Agricultural Bank of China Limited Hong Kong Branch, Merrill Lynch (Asia Pacific) Limited, Bank of Communications Co., Ltd. Hong Kong Branch, CCB International Capital Limited, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., J.P. Morgan Securities plc, Morgan Stanley & Co. International plc, Société Générale, Standard Chartered Bank, UBS AG Hong Kong Branch and United Overseas Bank Limited (collectively, the "Initial Purchasers"), reserve the right to withdraw the offering of the Notes at any time or to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Notes offered hereby.

This offering memorandum is personal to the prospective investor to whom it has been delivered by the Initial Purchasers and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum to any person other than the prospective investor and those persons, if any, retained to advise that prospective investor with respect thereto is unauthorized, and any disclosure of its contents without the Issuer's prior written consent is prohibited. The prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees not to make any photocopies of this offering memorandum.

This offering memorandum is intended solely for the purpose of soliciting indications of interest in the Notes from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions contained in the indentures governing the Notes (the "Indentures") and other transaction documents described herein. The information provided is not all-inclusive. The market information in this offering memorandum has been obtained by the Issuer from publicly available sources deemed by it to be reliable. The Issuer has accurately reproduced certain information, and as far as the Issuer is aware and able to ascertain third-party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Notwithstanding any investigation that the Initial Purchasers may have conducted with respect to the information contained herein, the Initial Purchasers do not accept any liability in relation to the information contained in this offering memorandum or its distribution or with regard to any other information supplied by or on the Issuer's or the Company's behalf.

Each of the Issuer and the Company confirms that, after having made all reasonable inquiries, this offering memorandum contains all information with regard to it and the Notes which is material to the offering and sale of the Notes, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading in any material respect and that there are no omissions of any other facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading in any material respect. Each of the Issuer and the Company accepts responsibility for the accuracy of the information contained in this offering memorandum. To the best of our knowledge, the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the import of this offering memorandum.

You should rely only on the information contained in this offering memorandum. The Issuer and the Company have not authorized anyone to provide you with information that is different. This offering memorandum may only be used where it is legal to sell the Notes. The information in this document may only be accurate at the date of this offering memorandum. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in the Company's or the Issuer's affairs and those of each of their respective subsidiaries or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Prospective investors hereby acknowledge that (i) they have not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with any investigation of the accuracy of such information or their investment decision and (ii) no person has been authorized to give any information or to make any representation concerning the Issuer, the Company, the Notes or the Guarantees (other than as contained herein and information given by the Issuer's or the Company's duly authorized officers and employees, as applicable, in connection with investors' examination of the Issuer and the Company, and the terms of this offering) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Issuer, the Company or the Initial Purchasers.

In making an investment decision, prospective investors must rely on their examination of the Issuer and the Company and the terms of this offering, including the merits and risks involved. Neither the Notes nor the Guarantees have been approved or recommended by any United States federal or state securities commission or any other regulatory authority. Furthermore, the foregoing authorities have not passed upon or endorsed the merits of the offering or confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any Note or Guarantee offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation.

In connection with this issue, Citigroup Global Markets Inc., Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited and Mizuho Securities USA LLC (the "Stabilizing Managers"), or any of their affiliates (or any person acting on behalf of any of them) may, to the extent permitted by applicable laws and regulations, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Stabilizing Managers, or any of their affiliates (or any person acting on behalf of any of them), to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

None of the Issuer, the Company or the Initial Purchasers, or any of its or their respective affiliates or representatives is making any representation to any offeree or purchaser of the Notes offered hereby regarding the legality of any investment by such offeree or purchaser under applicable legal investment or similar laws. The Initial Purchasers have not separately verified the information contained in this offering memorandum. None of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar (each as defined below) makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this offering memorandum. To the fullest extent permitted by law, none of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar accepts any responsibility for the contents of this offering memorandum or for any other statement made or purported to be made by the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar or on their behalf in connection with the Issuer and the Company or the issue and offering of the Notes. Each of the Initial Purchasers, the Trustee, Paying Agent, Transfer Agent or Registrar accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering memorandum or any such statement. Each prospective investor should consult with its own advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes.

The distribution of this offering memorandum and the offer and sale of the Notes may, in certain jurisdictions, be restricted by law. Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this offering memorandum, and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes purchases, offers or sales. See "Plan of Distribution" for a description of certain restrictions on the offer and sale of the Notes, and the circulation of documents relating thereto, in certain jurisdictions.

AVAILABLE INFORMATION

At any time when we are not subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "Exchange Act"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to any holder of the Notes, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of the Notes for so long as any of the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act. We will also furnish to each such holder all notices of shareholders' meetings and other reports and communications that are made generally available to shareholders.

CERTAIN DEFINED TERMS AND CONVENTIONS

In this offering memorandum, references to:

- "Company," "Guarantor," "we," "our" and "us" are to China Petrochemical Corporation, a PRC state-owned limited liability company (uniform social credit code 9111000010169286X1X) (unless the context requires otherwise, including any subsidiaries of the Company), wholly owned by the SASAC;

- "CSG" are to coal seam gas, a form of natural gas extracted from coal beds;

- "CSRC" are to the China Securities Regulatory Commission of the State Council of China;

- "Issuer" are to Sinopec Group Overseas Development (2018) Limited;

- "LNG" are to liquefied natural gas, a form of natural gas that has been converted to liquid form for ease of storage or transport;

- "MOFCOM" are to the Ministry of Commerce of the PRC;

- "NDRC" are to the National Development and Reform Commission of the PRC;

- "PRC" or "China" are to the People's Republic of China, excluding, for the purpose of this offering memorandum only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;

- "provinces" are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;

- "RMB" or "Renminbi" are to the Renminbi, the official currency of the PRC;

- "SAFE" are to the State Administration of Foreign Exchange of the PRC;

- "SASAC" are to the State-owned Assets Supervision and Administration Commission of the State Council of China;

- "Sinopec Catalyst" are to Sinopec Catalyst Co. Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Catalyst);

- "Sinopec Corp." are to China Petroleum & Chemical Corporation, a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Corp.);

- "Sinopec Engineering" are to Sinopec Engineering (Group) Co., Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Engineering);

- "Sinopec Group" are to the Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;

- "SIPC" are to Sinopec International Petroleum Exploration and Production Corporation, a PRC limited liability company (unless the context requires otherwise, including any subsidiary of SIPC);

- "Sinopec Lubricant" are to Sinopec Lubricant Co. Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Lubricant);

- "Sinopec Oilfield Service" are to Sinopec Oilfield Service Corporation, a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Oilfield Service); and

- "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America.

Solely for your convenience, this offering memorandum contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of RMB 6.6171 to US$1.00, the exchange rate set forth in the H.10 weekly statistical release (the "Noon Buying Rate") of the Board of Governors of the Federal Reserve System of the United States (the "Federal Reserve Board") on June 29, 2018. Further information on exchange rates is set forth in "Exchange Rates." You should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring us to rely on our own internally developed estimates regarding our industry, our position in the industry, our market and segment share and the market and segment shares of various industry participants based on experience, our own investigation of market conditions and our review of industry publications, including information made available to the public by our competitors. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Company or the Initial Purchasers or their respective directors and advisors, and none of the Issuer, the Company, the Initial Purchasers or their respective directors and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of the Issuer, the Company and the terms of the offering and the Notes, including the merits and risks involved.

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PRESENTATION OF INFORMATION

Financial Data

The Company's consolidated income statement, cash flow statement and balance sheet data for the years ended and as of December 31, 2015, 2016 and 2017 have been extracted from the consolidated financial statements audited by Grant Thornton Certified Public Accountants and included elsewhere in this offering memorandum. The Company's consolidated income statement and cash flow statement data for the six months ended June 30, 2017 and 2018 and balance sheet data as of June 30, 2018 have been derived from our unaudited interim consolidated financial statements included elsewhere in this offering memorandum. Such financial statements are prepared in accordance with the requirements of Accounting Standards for Business Enterprises — Basic Standards, specific standards and relevant regulations issued by Ministry of Finance of the PRC on or after February 15, 2006, Application Guidance of Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter ("PRC GAAP"). PRC GAAP differs in certain material respects from U.S. GAAP. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences between PRC GAAP and U.S. GAAP."

Rounding

Certain amounts and percentages included in this offering memorandum have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column.

Oil and Gas Reserves

Oil and gas reserves are key elements in the Company's investment decision-making process in relation to its exploration and production business. The term "reserves" describes the recoverable quantity of oil and gas volumes that are commercially viable for development given the prevailing economic situation, in particular the prices of crude oil and natural gas, present at the time of estimation. Reserves are estimated using either a deterministic method, in which a single best estimate is made based on known geological, engineering and economic data, or a probabilistic method, in which known geological, engineering and economic data are used to generate a range of estimates and their associated probabilities. All oil and gas reserves data are estimates, which are revised when additional information becomes available (for example, when additional wells are drilled or when actual production commences). "Proved reserves" refers to the estimated quantities of crude oil and natural gas that geological and engineering data demonstrate have reasonable certainty of being recovered in future years from known reservoirs under existing economic and operating conditions (that is, prices and costs at the date the estimate is made). To qualify as proved reserves, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the proved estimate.

The Company's total estimated proved crude oil and natural gas reserves are located in the PRC as well as overseas. The Company's domestic crude oil and natural gas reserves accounted for more than 50% of the total reserves of the Company in each of 2015, 2016 and 2017. The Company manages its domestic reserves estimation as well as the reserves estimation for the Angola Block 18, the Kazakhstan-based Caspian Investment Resources Ltd., the Russia-based OAO Udmurt Oil Company, and the Colombia-based Mansarovar Energy Colombia Ltd. through Sinopec Corp., and its other overseas reserves estimation through SIPC. Each of Sinopec Corp. and SIPC has a two-tier reserve management system comprising (i) a reserve management committee at its headquarters level that oversees the overall reserves estimation process and reviews the reserves estimation; and (ii) reserve management offices at its production units or project companies that implement the reserves estimation process and reviews reserves estimation reports.

The Company's reserves estimation is guided by procedural manuals and technical guidance. Initial collection and compilation of reserves information is conducted internally. The reserve management offices then work with technical experts to perform peer reviews to ensure that the reserves estimation complies with relevant technical guidance qualitatively and quantitatively and is accurate and reasonable. The reserve management committee is primarily responsible for managing and coordinating the reserves estimation process, reviewing and approving annual changes to and results of reserves estimation and reporting proved reserves. The Company's reserves estimation process is further facilitated by a specialized reserves database which is improved and updated periodically. Sinopec Corp. engages independent engineering consultants who assist it in its reserves estimation process and to comply with relevant rules and regulations of the United States Securities and Exchange Commission (the "SEC"). In addition, a substantial majority of the Company's and SIPC's overseas oil and gas reserves estimation has been assessed by or with assistance from independent engineering consultants.

The Company believes that the methods it uses to estimate these reserves are consistent with the definitions and classifications in the Petroleum Resources Management System developed by internationally recognized organizations such as the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, which serve as guidelines for the oil and gas industry. Sinopec Corp.'s reserve data for 2015, 2016 and 2017 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting," which became effective on January 1, 2010.

Unless otherwise indicated, information regarding the Company's oil and gas reserves and production in this offering memorandum refers to the Company's share of reserves and production based on its percentage of equity interest in the relevant properties.

Presentation of Data Relating to SIPC

As a result of the capital restructuring of SIPC which was completed in December 2015 but was deemed to be effective as of January 1, 2015, for the purposes of preparing financial statements, our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and our unaudited consolidated financial statements as of and for the six months ended June 30, 2017 and 2018 do not include the financial information of SIPC as a consolidated subsidiary, and, instead, record our 30% equity interest in SIPC as a long-term equity investment using equity accounting method in accordance with PRC GAAP. In addition, our estimated proved reserves and production of crude oil and natural gas as of and for the years ended December 31, 2015, 2016 and 2017 only include 30% of the estimated proved reserves and production of SIPC reflecting our percentage of equity interest in SIPC. Please refer to the sections in this offering memorandum entitled "Our History and Corporate Structure — Our History" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting Results of Operations — SIPC Restructuring" for further information.

FORWARD-LOOKING STATEMENTS

Certain statements in this offering memorandum are not historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This offering memorandum may contain words such as "believe," "could," "may," "will," "target," "estimate," "project," "predict," "forecast," "guideline," "should," "plan," "expect" and "anticipate" and similar expressions that are intended to identify forward-looking statements, but are not the exclusive means of identifying these statements. Particularly, statements under the captions "Summary," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" relating to the following matters may include forward-looking statements:

- the anticipated demand for oil and gas products and related capital expenditures and investments,
- projections of capital expenditures in general and other financial items,
- generation of future receivables,
- expected sales to customers and price levels,
- the expected results of exploration, production and refining activities and related capital expenditures and investments, and
- environmental compliance and remediation.

Such statements are subject to various risks and uncertainties, including, but not limited to:

- changes in global economic and social conditions,
- changes in the world political situation,
- changes in economic and political conditions and increases in regulatory burdens in the PRC and other countries in which we operate, transact business or have interests,
- changes in prices or demand for products or raw materials produced or used by us or our subsidiaries or affiliates, both in the PRC and in international markets, as a result of competitive actions or economic factors, such as inflation or exchange rate fluctuations,
- accidents and natural disasters,
- changes in import controls or import duties, levies or taxes, either in international markets or in the PRC,
- changes in laws, regulations, taxation or accounting standards or practices,
- currency, interest rate, price and credit risks,
- the risks of the increasing expenditures and investments,
- uncertainty of technological change,

- the technical limitations of our exploration and production of the oil and gas reserves,
- the ability of third parties to perform in accordance with contractual terms and specifications,
- acquisitions or divestitures,
- potential disputes with international and domestic joint venture partners, and
- other factors, including those discussed in "Risk Factors."

In addition, the expectations of management with respect to oil and gas exploration activities are subject to risks arising from the inherent difficulty of predicting the presence, yield or quality of oil and gas deposits, as well as unknown or unforeseen difficulties in extracting, transporting or processing any oil and gas found, or doing so on a commercial basis.

Forward-looking statements involve inherent risks and uncertainties. Should one or more of these or other uncertainties or risks materialize, actual results may vary materially from those estimated, anticipated or projected. Specifically, but without limitation, capital costs could increase, projects could be delayed and anticipated improvements in capacity, performance or profit levels might not be fully realized. Although we believe that the expectations of our management as reflected by such forward-looking statements are reasonable based on information currently available to it, no assurances can be given that such expectations will prove to have been correct. Accordingly, you are cautioned not to place undue reliance on the forward-looking statements and neither the Issuer nor the Company undertakes any obligation to update or revise any of them, whether as a result of new information, future developments or otherwise.

ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

We are a state-owned limited liability company incorporated in the PRC. Most of our assets are located in the PRC. In addition, all of our directors and officers are residents of the PRC, where substantially all of their assets may be located. As a result, it may be difficult for investors to effect service of process upon us or such persons, or to enforce against us or such persons judgments obtained in courts or arbitral tribunals outside the PRC, including judgments predicated upon the civil liability provisions of the U.S. federal or state securities laws.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view towards developing a comprehensive system of commercial law. In particular, legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investment in the PRC. Where adequate law exists in the PRC, the enforcement of existing laws or contracts based on existing law may be nevertheless uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the PRC legal system is based on written statutes and their interpretations, and prior court decisions may be referenced but carry limited weight as precedents.

There is uncertainty as to whether the courts of the PRC would:

(1) enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States, or upon any other basis, as the PRC does not have treaties for the reciprocal enforcement of judgments with the United States; or

(2) entertain original actions brought in the courts of the PRC, against us or our directors and officers predicated solely upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

Furtherly the recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other agreements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates the basic principles of PRC law or national sovereignty, security or public interest. Therefore, it is uncertain whether a PRC court would enforce a judgment rendered by a court in the United States.

The Issuer has been advised by Conyers Dill & Pearman, its British Virgin Islands legal advisors, that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the foreign courts against the Issuer under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands, and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

SUMMARY

This summary may not contain all of the information that may be important to you. You should read this entire offering memorandum before making an investment decision to purchase the Notes.

Overview

The Company

We are the largest integrated petroleum and petrochemical companies in China and one of the largest in the world in terms of revenue, according to the "2018 Fortune Global 500." We are the largest refined oil producer in the world in terms of crude oil throughput in 2017. We are the second largest oil and gas producer in China in terms of production volume in 2017. We are also the largest distributor of refined oil products in China measured by sales volume in 2017, and the number of our service stations ranked first in China and second in the world as of June 30, 2018. We ranked first in China in terms of production volume of major petrochemical products in 2017. We have been named in the "Fortune Global 500" since 2003 and ranked third in the "2018 Fortune Global 500" in terms of revenue.

We were established in July 1998 on the basis of the former China Petrochemical Corporation and converted into a limited liability company in 2018. We are a state-authorized and invested entity and one of China's key state-owned enterprises ("SOEs") under the supervision of the SASAC. Our telephone numbers are +86 (10) 59969290 and +86 (10) 59969298. We conduct the following key businesses:

- ***Exploration and Production***: We are China's second largest oil and gas producer based on production volume in 2017. We maintained a balanced portfolio of domestic and overseas resources, optimized our development programs in mature oilfields, and increased the production capacity in new fields. We made a number of new discoveries of oil and gas in the Xinjiang Tahe Basin, the Sichuan Basin, Beibu Gulf of the South China Sea, the Ordos Basin, the Tarim Basin, the Junggar Basin, Yin'e Basin, Shengli Oil Field and the North Jiangsu Basin. As of December 31, 2017, we had 3,304 million barrels of oil equivalent ("boe") of proved reserves of crude oil and natural gas, including 1,935 million barrels of crude oil and 8,214 billion cubic feet ("bcf") of natural gas. In 2017 and the six months ended June 30, 2018, our production of crude oil and natural gas was 525 million and 262 million boe, respectively. We are also exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide a more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, LNG, geothermal heating, solar photovoltaics and other unconventional energies. In 2017, the Fuling shale gas field reached an annual production capacity of 10 billion cubic meters.

- ***Refining***: We are the largest refined oil producer in the world in terms of crude oil throughput in 2017. In 2017 and the six months ended June 30, 2018, we processed 240 million tonnes and 122 million tonnes of crude oil, representing approximately 42.3% and 40.6% of the total crude oil processed in China, respectively. We operate 31 refineries in China, including 15 with refining capacity of 10 million tonnes or more per annum, which are located in China's eastern and southeastern regions with more developed economies, higher population densities and larger numbers of oil product consumers than the other regions in China. We commenced production of our self-developed bio-jet fuel, which uses vegetable oils as feedstock, in 2011. It was successfully used in trial commercial flights in 2015, resulting in us receiving the first license to produce bio-jet fuel in China and China being the fourth country in the world to have proprietary technologies to produce bio-jet fuel.

- ***Chemicals***: We are the largest producer of major petrochemical products in China and one of the largest in the world in terms of production volume in 2017. We believe we have greater economies of scale in most of our production facilities and more extensive distribution channels in China than our competitors. We produce a wide range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fiber, synthetic rubbers and synthetic ammonia. In 2017 and the six months ended June 30, 2018, we produced 11.6 million tonnes and 5.8 million tonnes of ethylene, the primary feedstock for our chemical production, respectively. Our chemical products are widely distributed throughout China and used in various industries including textiles, agriculture, construction, shoes, housewares, packaging, electronic appliances and automobiles.

- ***Marketing and Distribution***: We are the largest distributor of refined oil products in China measured by sales volume in 2017. In 2017, our domestic market share with respect to the sales of refined oil products was 58% as to major refined oil products, which include gasoline, diesel and kerosene (including jet fuel). We sell most of our major refined oil products through retail service stations that operate under the "Sinopec" brand. Our strong retail network provides extensive geographic coverage of retail sales across China. As of June 30, 2018, we had 30,645 service stations, representing the largest oil products distribution network in China. The retail sales volume of gasoline, diesel and kerosene (including jet fuel) through these service stations accounted for approximately 68.4% and 67.0% of our major refined oil products sales volume in China for the year of 2017 and the first half of 2018, respectively. As of June 30, 2018, we had more than 1,000 service stations in each of 14 provinces, most of which are located in China's eastern and southern regions. As of June 30, 2018, we had over 14,000 kilometers of refined oil pipelines, and 18.2 million cubic meters of refined oil product storage capacity. In 2017 and the six months ended June 30, 2018, we sold 198.8 and 96.5 million tonnes of major refined oil products, respectively. We have developed non-fuel businesses for our full-service stations to transform our network of traditional service stations into a comprehensive one-stop multifunctional integrated service platform that combines "fueling, shopping, dining and car services." The number of our Easy Joy convenience stores, most of which are located in our service stations, reached 26,424 as of June 30, 2018. In addition, we have expanded our business into electric vehicles charging market by co-operating with our business partners, such as Beijing Electric Vehicle Co., Ltd., to integrate charging and power stations for electric vehicles into our service stations.

- ***Oil and Petrochemical Engineering Technical Services***: We believe we are one of the largest refining and chemical engineering technical service providers in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. Equipped with our in-house technologies and patents, we are a technological leader in refining and chemical engineering design both in China and overseas. In the first half of 2018, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US$0.5 billion and US$0.9 billion, respectively. In addition, our oil engineering technical service teams have provided services in more than 40 countries and regions in relation to more than 500 oil engineering technical service contracts. In the first half of 2018, the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US$1.0 billion and the aggregate value of new contracts of our overseas oil engineering technical services amounted to US$1.8 billion.

- ***Others***: We also engage in international trade, research and development and other businesses, which are collectively referred to as our “Others” segment. We had a total crude oil trade volume of 364 million tonnes in 2017.

The following table sets forth our operating revenues by business segment for the periods presented.

	Year Ended December 31,				Six Months Ended June 30,				
	2015	2016	2017		2017		2018		
					(unaudited)		(unaudited)	(unaudited)	
	RMB	RMB	RMB	Percentage[2]	RMB	Percentage	RMB	US$	Percentage
	(in millions, except for percentage data)								
Total Operating Revenues[1]:									
Exploration and Production	138,653	115,939	157,504	3.90%	74,109	3.77%	87,925	13,288	3.81%
Refining	926,616	855,786	1,011,853	25.06%	488,172	24.84%	593,327	89,666	25.69%
Chemicals	362,875	367,197	474,471	11.75%	225,328	11.47%	276,229	41,745	11.96%
Marketing and Distribution	1,106,667	1,052,857	1,224,198	30.33%	605,960	30.83%	668,325	101,000	28.94%
Oil & Petrochemical Engineering Technical Services	111,731	87,539	89,328	2.21%	35,138	1.79%	43,996	6,649	1.91%
Others	862,008	830,463	1,079,566	26.74%	536,506	27.30%	639,519	96,646	27.69%
Elimination of inter-segment	(1,461,278)	(1,340,561)	(1,636,602)		(778,713)		(982,064)	(148,413)	
Total	2,047,272	1,969,220	2,400,318		1,186,500		1,327,257	200,580	

(1) Revenues breakdown by segments is calculated without taking into account inter-segment elimination.
(2) Percentage of revenues is based on total operating revenues before inter-segment elimination.

Sinopec Corp.

Sinopec Corp. is an integral and significant part of the Company. It was established as a joint stock company with limited liability under the Company Law of the PRC on February 25, 2000 as part of a restructuring in which the Company transferred to Sinopec Corp. the majority of its production operations. Sinopec Corp. mainly conducts domestic oil and gas exploration, development and production; crude oil refining; the marketing and distribution of refined oil products; and the production and sales of petrochemical products. Sinopec Corp. is the first company in China to have obtained a listing of its shares on four stock exchanges. Sinopec Corp.’s H shares and American Depositary Shares representing H shares were simultaneously listed on the SEHK (stock code: 0386), the New York Stock Exchange (stock code: SNP) and the London Stock Exchange (stock code: SNP) on October 18, 2000; and its A shares were listed on the Shanghai Stock Exchange (stock code: 600028) on August 8, 2001. Sinopec Corp. was awarded “Best Managed Company” by FinanceAsia in 2011, “Best Managed Company in China” by Euromoney in 2012, “Global Compact Best China Practice Award” by UN Global Compact Network in 2012, and “Crisis Management and CRS Gold Awards” by Asia-Pacific SABRE Awards in 2013, “Shale Oil and Gas International Pioneer” by International Gas Union and American Gas Association in 2014, as well as “Global Competitive Brands — Top 10 from China” by

International Data Group for six consecutive years. As of June 30, 2018, the equity interest held by the Company, directly and indirectly, in Sinopec Corp. remained at 71.32% Sinopec Corp. accounted for over 60% of the Company's total assets as of December 31, 2017 and over 90% of the Company's revenue for the year ended December 31, 2017, according to the audited consolidated financial statements of Sinopec Corp. and of the Company prepared in accordance with PRC GAAP. For more information of Sinopec Corp., see Sinopec Corp.'s periodic filings with the SEC on www.sec.gov. Sinopec Corp.'s periodic filings do not constitute part of this offering memorandum.

Sinopec Engineering

Sinopec Engineering is a subsidiary of the Company and focuses on providing integrated engineering and technical services for domestic and overseas refining and chemical engineering market. It is the largest refining and petrochemical engineering company in China. In May 2013, the H shares of Sinopec Engineering were successfully listed on the SEHK (stock code: 2386). Sinopec Engineering's periodic filings do not constitute part of this offering memorandum.

Sinopec Oilfield Service

Sinopec Oilfield Service, formerly Sinopec Yizheng Chemical Fibre Company Limited ("Yizheng"), is a subsidiary of the Company focusing on providing petroleum engineering and technical services. Yizheng was a subsidiary of the Company that produced and sold chemical fibre and chemical fibre raw materials. A shares of Yizheng were listed on the Shanghai Stock Exchange (stock code: 600871) and H shares of Yizheng were listed on the SEHK (stock code: 1033). In December 2014, pursuant to a series of agreements entered into by the Company, Sinopec Corp. and Yizheng, Yizheng transferred all of its chemical fibre business to Sinopec Corp., and the Company injected its petroleum engineering business into Yizheng. In March 2015, Yizheng changed its name to Sinopec Oilfield Service. Sinopec Oilfield Service is the largest petroleum engineering and oilfield technology service provider in China, and an integrated contractor and technology service provider. Sinopec Oilfield Service's periodic filings do not constitute part of this offering memorandum.

Sinopec Lubricant

Sinopec Lubricant is an indirect subsidiary of the Company specializing in the production, marketing and research and development of lubricant products and services. It is the largest lubricant group with the most comprehensive production lines in Asia, and owns the most recognized brand in China's lubricant industry: Great Wall Lubricant.

Sinopec Catalyst

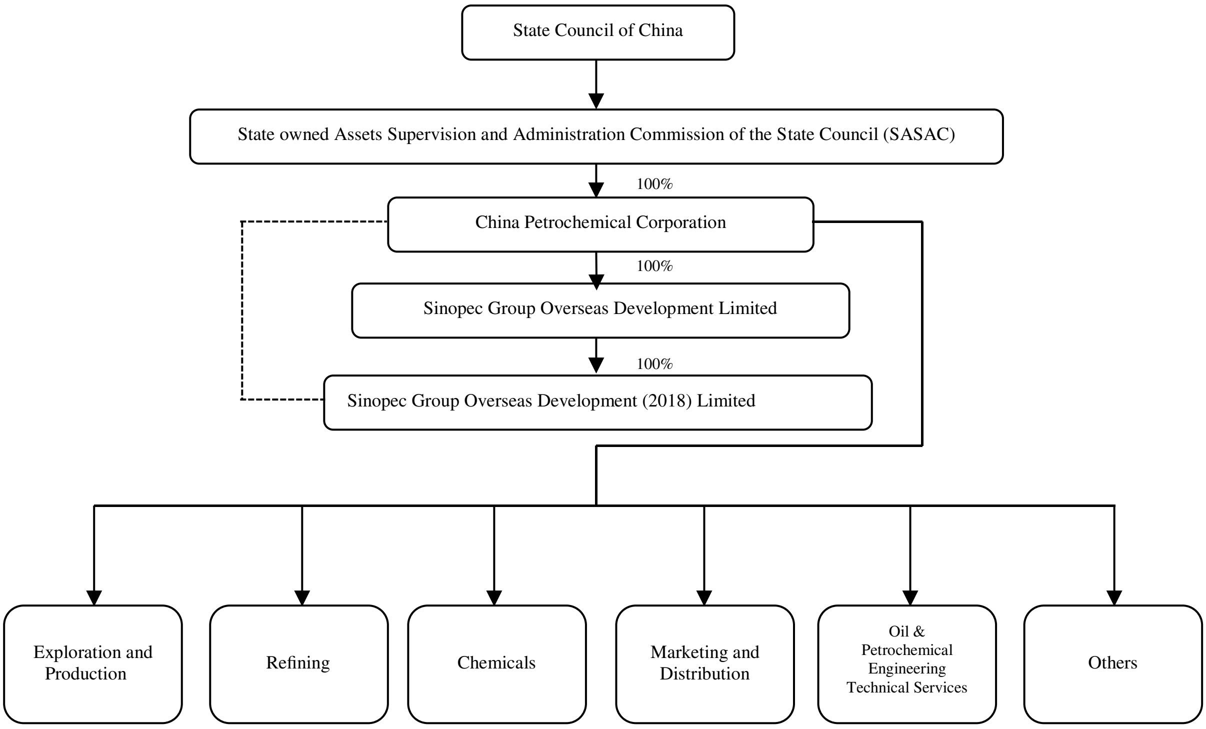
Sinopec Catalyst is an indirect subsidiary of the Company and an investment platform for the production, marketing and management of catalysts. It is one of the largest producers, suppliers and services providers of oil refining and chemical catalysts in the world.

The Issuer

The Issuer was incorporated with limited liability on 30 August, 2018 in the British Virgin Islands under the BVI Business Companies Act. It is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands. The Issuer has no material assets and will conduct no business except in connection with the issuance of the Notes and the advance of the net proceeds from their issuance to us and/or our subsidiaries. The registered address of the Issuer is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands. The telephone numbers of the Issuer are +86 (10) 59969290 and +86 (10) 59969298.

Corporate Structure

The following chart briefly illustrates the shareholding and group structure of the Company and the Issuer.



Competitive Strengths

- We are a global leader and the largest integrated petroleum and petrochemical companies in China with strong government support.
- We operate effectively as an integrated petroleum and petrochemical company with a leading position in every segment along the oil and gas value chain.
- Our market-leading petroleum and petrochemical downstream businesses in China offer stable cash flow generation and growth potential.
- We develop our operational excellence by reducing operating costs, adjusting production to market demands and improving efficiency and reliability.
- We have prudent financial policies and an effective risk management system which contribute to our solid financial results.

- We have an experienced management team with a strong corporate governance system and a high performance corporate culture.

Strategy

Our business objective is to build a world-leading energy and chemical company which is highly responsible, respected and well-regarded in its fields. To realize this goal, we will seek to implement the following strategies:

- Reinforce the advantages of our integrated business model with a value-oriented approach.

- Continue to stimulate the momentum of our operations through innovation.

- Improve our operational and financial efficiencies through optimizing resource allocation.

- Increase our cooperation with reputable partners.

- Emphasize low-carbon consumption and sustainable development.

Recent Developments

On June 15, 2018, Sinopec Corp. announced the Company's proposal to issue exchangeable corporate bonds ("Exchangeable Corporate Bonds") exchangeable into part of the A shares of Sinopec Corp. held by the Company. The Company proposed to issue Exchangeable Corporate Bonds in installments with a term not exceeding five years and proceeds not exceeding RMB 50 billion. Subject to the fulfillment of conditions to exchange, the holders of Exchangeable Corporate Bonds will be entitled to exchange their Exchangeable Corporate Bonds into A shares of Sinopec Corp. within the exchange period of Exchangeable Corporate Bonds. The issuance of Exchangeable Corporate Bonds has been approved by the SASAC and the CSRC. The final plan for the issuance of Exchangeable Corporate Bonds will be determined based on market conditions after obtaining above-mentioned approval.

On August 9, 2018, the Company notified Sinopec Corp. of its gratuitous transfer ("Gratuitous Transfer") of 1,241,721,854 A shares the Company holds in the share capital of Sinopec Corp. to each of Beijing Chengtong Financial Control Investment Co., Ltd. (北京誠通金控投資有限公司) ("Chengtong Financial Control") and Guoxin Investment Co., Ltd. (國新投資有限公司) ("Guoxin Investment"). Immediately upon completion of the Gratuitous Transfer, the total share capital of Sinopec Corp. will remain unchanged and the number of A Shares in the share capital of Sinopec Corp. directly held by the Company, Chengtong Financial Control and Guoxin Investment will be 83,309,227,393, 1,241,721,854 and 1,241,721,854 respectively and representing 68.81%, 1.03% and 1.03% of the total share capital of Sinopec Corp. respectively. The Gratuitous Transfer would not cause any change to the controlling shareholder or the ultimate controller of Sinopec Corp.

On September 3, 2018, the Company announced the proposed issuance of domestic corporate bonds with an aggregate amount of up to RMB 5 billion. Completion of the issuance is expected to occur on September 6, 2018.

SUMMARY FINANCIAL INFORMATION

Our summary historical consolidated income statement and cash flow statement data for the years ended December 31, 2015, 2016 and 2017 presented below and our summary historical consolidated balance sheet data as of December 31, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The audited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

Our summary historical consolidated income statement and cash flow statement data presented below for the six months ended June 30, 2017 and 2018 and our summary historical consolidated balance sheet data as of June 30, 2018 have been derived from our unaudited interim consolidated financial statements included elsewhere in this offering memorandum. Our unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all normal and recurring adjustments that we consider necessary for a fair statement of our financial position and operating results for the periods presented except as permitted for interim financial statements.

Since the SIPC Restructuring was completed in December 2015 but was deemed effective as of January 1, 2015, for the purposes of preparing financial statements, our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and unaudited consolidated financial statements as of and for the six months ended June 30, 2017 and 2018 only recorded our equity interest in SIPC as a long term equity investment using the equity accounting method.

Other than disclosed herein, there has been no material adverse change in our prospects and the prospects of the Guarantor since December 31, 2017, and there has been no significant change in our financial or trading position or the financial or trading position of the Issuer since June 30, 2018.

You should read the summary financial information below in conjunction with our consolidated financial statements and related notes and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. Our consolidated financial statements are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain respects from U.S. GAAP. See "Description of Certain Differences between PRC GAAP and U.S. GAAP." Our historical results do not necessarily indicate results expected for any future period.

Consolidated Income Statement Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2015	**2016**	**2017**	**2017**	**2018**	
				(unaudited)	**(unaudited)**	
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**US$**
			(in millions)			
Operating Revenues	**2,047,272**	**1,969,220**	**2,400,318**	**1,186,500**	**1,327,257**	**200,580**
Operating costs	1,598,236	1,528,840	1,920,377	957,509	1,070,501	161,778
Taxes and surcharges	241,696	237,978	239,627	118,278	121,169	18,311
Selling and distribution expenses	48,615	51,198	57,833	26,653	28,397	4,291
General and administrative expenses	75,744	77,905	81,778	33,883(1)	38,993(1)	5,893(1)
Exploration expenses	10,456	11,047	11,120	4,542	4,362	659
Financial expenses	13,111	8,402	4,183	3,221	1,157	175
Assets impairment losses	9,604	19,012	43,089	4,698	(35)(2)	(5)(2)
Operating Expenses	**1,997,462**	**1,934,382**	**2,358,007**	**1,148,784**	**1,264,544**	**191,102**
Gains (losses) from changes in fair value	729	(209)	(9)	369	(658)	(99)
Investment income	6,207	16,819	13,094	5,399	6,697	1,012
Gains from assets disposal (loss)	198	(1,183)	(2,222)	271	366	55
Other income	—	—	5,335	1,655	2,608	394
Operating Profit	**56,944**	**50,265**	**58,509**	**45,410**	**71,726**	**10,839**
Non-operating income	8,805	6,650	3,546	740	1,513	229
Non-operating expenses	3,627	4,011	3,850	1,359	1,403	212
Profit Before Income Tax	**62,122**	**52,904**	**58,205**	**44,791**	**71,836**	**10,856**
Income tax	18,028	24,705	19,245	10,396	16,238	2,454
Net Profit	**44,094**	**28,199**	**38,960**	**34,395**	**55,598**	**8,402**
Net profit attributable to parent company	22,591	8,357	10,393	19,116	32,936	4,977

Notes:

(1) Include research and development expenses for the six months ended then.

(2) Include expected credit loss for the six months ended June 30, 2018.

Consolidated Balance Sheet Data of the Company

	As of December 31,			As of June 30,	
	2015	2016	2017	2018	
				(unaudited)	
	RMB	RMB	RMB	RMB	US$
			(in millions)		
Total current assets	551,464	659,965	795,418	880,411	133,051
Total non-current assets	1,507,042	1,499,426	1,461,280	1,415,195	213,869
Total assets	2,058,506	2,159,391	2,256,698	2,295,606	346,920
Total current liabilities	656,509	728,088	842,428	816,594	123,407
Total non-current liabilities	349,017	358,403	335,704	355,951	53,793
Total liabilities	1,005,526	1,086,491	1,178,132	1,172,545	177,199
Total owners' equity attributable to parent company	730,239	740,279	740,482	776,215	117,304
Minority interest	322,741	332,621	338,084	346,846	52,417
Total owners' equity	1,052,980	1,072,900	1,078,566	1,123,061	169,721
Total liabilities and owners' equity	2,058,506	2,159,391	2,256,698	2,295,606	346,920

Consolidated Cash Flows Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2015	2016	2017	2017	2018	
				(unaudited)	(unaudited)	
	RMB	RMB	RMB	RMB	RMB	US$
			(in millions)			
Net cash flows generated from (used in) operating activities	169,869	214,426	205,087	65,565	71,036	10,735
Net cash flows generated from (used in) investing activities	(209,008)	(100,967)	(148,303)	(45,263)	20,934	3,164
Net cash flows generated from (used in) financing activities	97,193	(43,784)	(23,120)	(13,864)	(33,908)	(5,124)
Effect of foreign exchange rate changes	1,094	722	(2,394)	(681)	629	95
Net increase (decrease) in cash and cash equivalents	59,148	70,397	31,270	5,757	58,691	8,870
Cash and cash equivalents at the beginning of the year	35,280	94,428	164,825	164,825	169,228	25,574
Cash and cash equivalents at the end of the year	94,428	164,825	196,095	170,582	227,919	34,444

Other Financial Data of the Company

	As of and for the Year Ended December 31,			As of and for the Six Months Ended June 30,
	2015	2016	2017	2018
				(unaudited)
EBITDA[(1)](RMB in millions)	178,067	185,054	225,767	127,173
EBITDA margin[(2)]	8.70%	9.40%	9.41%	9.58%
Total debt[(3)](RMB in millions)	484,810	494,862	483,245	478,042
Net debt[(4)](RMB in millions)	390,578	330,187	287,304	250,143
Total debt/EBITDA[(5)]	2.72	2.67	2.14	1.88
Net debt/EBITDA[(5)]	2.19	1.78	1.27	0.98
EBITDA/Interest[(6)]	20.62	18.73	23.98	26.28
Total debt/Total capitalization[(7)]	31.53%	31.56%	30.94%	29.86%
Cash/Short-term borrowings	46.47%	77.73%	86.31%	106.43%

(1) EBITDA for any period is calculated as operating profit adjusted for investment income and gains (losses) from changes in fair value, plus assets impairment losses, interest expenses and depreciation, depletion and amortization. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.

(2) EBITDA margin is calculated as EBITDA divided by operating revenues.

(3) Total debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to our subsidiaries.

(4) Net debt is calculated as total debt minus cash.

(5) When calculating total debt/EBITDA and net debt/EBITDA for the six months ended June 30, 2018, the denominator is adjusted to two times of EBITDA for the six months ended June 30, 2018.

(6) Interest is calculated as interest expenses plus capitalized interests.

(7) Total capitalization equals total debt plus total owners' equity.

THE OFFERING

The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this offering memorandum. For a more complete description of the terms of the Notes and Guarantees, see "Description of the Notes and Guarantees" in this offering memorandum. Terms used in this summary and not otherwise defined shall have the meanings given to them in "Description of the Notes and Guarantees."

Issuer	Sinopec Group Overseas Development (2018) Limited, a company incorporated with limited liability on 30 August, 2018 in the British Virgin Islands under the BVI Business Companies Act (BVI Company No. 1990746).
Guarantor/The Company	China Petrochemical Corporation, a state-owned limited liability company incorporated in the PRC.
Notes Offered	US$750,000,000 aggregate principal amount of 3.750% senior notes due 2023 (the "2023 Notes"). US$500,000,000 aggregate principal amount of 4.125% senior notes due 2025 (the "2025 Notes"). US$750,000,000 aggregate principal amount of 4.250% senior notes due 2028 (the "2028 Notes"). US$400,000,000 aggregate principal amount of 4.600% senior notes due 2048 (the "2048 Notes").
Guarantees	Payment of principal of, interest and all other amounts payable on, the Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price	2023 Notes: 99.459% of principal amount, plus accrued interest from September 12, 2018, to the issue date. 2025 Notes: 99.555% of principal amount, plus accrued interest from September 12, 2018, to the issue date. 2028 Notes: 99.164% of principal amount, plus accrued interest from September 12, 2018, to the issue date. 2048 Notes: 100.000% of principal amount, plus accrued interest from September 12, 2018, to the issue date.
Maturity Date	2023 Notes: September 12, 2023 2025 Notes: September 12, 2025 2028 Notes: September 12, 2028 2048 Notes: September 12, 2048
Interest Payment Dates	March 12 and September 12, commencing March 12, 2019
Interest	The 2023 Notes will bear interest from September 12, 2018 at the rate of 3.750% per annum, payable semi-annually in arrears from March 12, 2019. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

	The 2025 Notes will bear interest from September 12, 2018 at the rate of 4.125% per annum, payable semi-annually in arrears from March 12, 2019. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months. The 2028 Notes will bear interest from September 12, 2018 at the rate of 4.250% per annum, payable semi-annually in arrears from March 12, 2019. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months. The 2048 Notes will bear interest from September 12, 2018 at the rate of 4.600% per annum, payable semi-annually in arrears from March 12, 2019. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.
Further Issues	The 2023 Notes will be issued in an initial aggregate principal amount of US$750,000,000, the 2025 Notes will be issued in an initial aggregate principal amount of US$500,000,000, the 2028 Notes will be issued in an initial aggregate principal amount of US$750,000,000 and the 2048 Notes will be issued in an initial aggregate principal amount of US$400,000,000 The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Notes, create and issue, pursuant to the Indentures, additional notes, having the same terms and conditions under the Indentures as the previously outstanding Notes in all respects, except for issue date, issue price and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Notes; provided, however, that such additional notes may have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Notes only if (i) such additional notes are fungible with such Notes for U.S. federal income tax purposes and (ii) registration with the Beijing Branch of the guarantees of such additional notes has been completed, prior to the additional notes being assigned the same CUSIP, ISIN, Common Code or other identifying number.

Ranking	The Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer ranking pari passu, without any preference or priority of payment among themselves, with all other unsecured and unsubordinated indebtedness of the Issuer (except obligations preferred by applicable law). The Guarantees will constitute the Guarantor's direct, unsecured and unsubordinated obligations ranking pari passu (except obligations preferred by applicable law) with all our other unsecured and unsubordinated indebtedness, including such obligations incurred in connection with the senior notes issued by Sinopec Group Overseas Development (2017) Limited in 2017 and guaranteed by the Company.
Certain Covenants	The Guarantor has covenanted in the Indentures, with certain exceptions, not to incur certain liens or consolidate, merge or sell its assets substantially as an entirety unless certain conditions are satisfied. The Notes and the Indentures do not otherwise restrict or limit the Guarantor's ability to incur additional indebtedness by itself or its subsidiaries or its ability to enter into transactions with, or to pay dividends or make other payments to, affiliates. See "Description of the Notes and Guarantees — Certain Covenants — Limitation on Liens" and "Description of the Notes and Guarantees — Consolidation, Merger and Sale of Assets."
Additional Amounts	In the event that withholding taxes are imposed by a Relevant Taxing Jurisdiction in respect of payments pursuant to the Notes or the Guarantees, the Guarantor or the Issuer, as the case may be, will, subject to certain exceptions, pay such Additional Amounts as will result, after deduction or withholding of such taxes, in receipt by each holder of such amounts as would have been received by such holder in respect of the Notes or Guarantees, as applicable, had no deduction or withholding been required. See "Description of the Notes and Guarantees — Additional Amounts."

Optional Redemption	The Guarantor or the Issuer may, at the Guarantor's option, at any time and from time to time redeem the Notes, in whole or in part, on not less than 30 nor more than 60 days' prior notice. The applicable Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes (not including interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points in the case of the 2023 Notes, 25 basis points in the case of the 2025 Notes, 25 basis points in the case of the 2028 Notes and 25 basis points in the case of the 2048 Notes, in each case plus accrued and unpaid interest on the applicable Notes to be redeemed, if any, to the date of redemption. See "Description of the Notes and Guarantees — Redemption — Optional Redemption."
Optional Tax Redemption	The Notes may be redeemed at the option of the Issuer, in whole but not in part, at the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, in the event the Guarantor or the Issuer becomes obligated to pay Additional Amounts in respect of the Notes or the Guarantees as a result of certain changes in tax laws; except for Additional Amounts payable in respect of a withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer or a successor person being, or being considered, a PRC tax resident under the PRC Enterprise Income Tax Law. See "Description of the Notes and Guarantees — Redemption — Optional Tax Redemption."
Repurchase upon a Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event, the Issuer will be required to make an offer to repurchase all of the Notes at a price in cash equal to 101% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest on the principal amount of the Notes being repurchased to but excluding the date of repurchase. See "Description of the Notes and Guarantees — Repurchase upon a Change of Control Triggering Event."

Completion of Registration of the Guarantees with the Beijing Branch	We intend to execute and register the Guarantees with the Beijing Branch as soon as reasonably practicable after the pricing date, and we will use our commercially reasonable best efforts to complete the registration of the Guarantees with the Beijing Branch. See "Description of the Notes and Guarantees — Completion of the Registration of the Guarantees with the Beijing Branch." However, we will not be required under the Indentures to make an offer to repurchase all of the Notes for which registration has not been completed.
Transfer Restrictions	The Notes have not been registered under the Securities Act, any state securities laws in the United States or the securities laws of any other jurisdiction. Unless they are registered, the Notes may not be sold except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act, applicable state securities laws or the applicable securities laws of any other jurisdiction. See "Transfer Restrictions."
Use of Proceeds	The net proceeds we expect to receive from this offering, after deducting underwriting commissions and certain estimated offering expenses, will be approximately US$2,384,560,000. We intend to use the net proceeds of this offering to refinance our existing indebtedness and for general corporate purposes. See "Use of Proceeds."
Governing Law	The Notes, the Guarantees and the Indentures will be governed by, and construed in accordance with, the laws of the State of New York.
Denomination, Form and Registration	The Notes will be issued in minimum denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company ("DTC").

	The Notes offered to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of DTC for the respective accounts of Euroclear Bank SA/NV, as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, S.A. ("Clearstream, Luxembourg"). DTC will credit the account of each of its participants, including Euroclear and Clearstream, Luxembourg, with the principal amount of the Notes being purchased by or through such participant. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.
Ratings	The Notes are expected to be rated "A1" by Moody's Investors Service, Inc. ("Moody's") and "A+" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agency.
Risk Factors	See "Risk Factors" and the other information in this offering memorandum for a discussion of factors that should be carefully considered before deciding to invest in the Notes.
Listing	The Issuer has received an eligibility letter from the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only as described in this offering memorandum.
Trustee	Citicorp International Limited
Paying Agent, Transfer Agent and Registrar	Citibank N.A., London Branch

You should consider carefully all of the information in this offering memorandum, including the risks and uncertainties described below, before investing in the Notes. Any of the following risks and uncertainties could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Risks Relating to Our Business Operation

Our business may be adversely affected by the fluctuation of crude oil, natural gas, and refined oil product prices.

We consume a large amount of crude oil to produce our refined oil products and chemical products. A decline in crude oil prices will reduce our crude oil revenues derived from external customers, and may cause us to incur impairment to our investments and assets. A sharp decline in crude oil and gas prices may impact our cash flow, profit, and our ability to maintain our long-term investment projects, and a prolonged period of low oil and gas prices may impact the base of our proved oil or natural gas reserves and we may have to write down assets and re-assess the viability of certain projects. An increase in crude oil prices may, however, increase the production costs of refined oil products, which we may not be able to pass on to customers in a timely manner or at all due in part to the control of retail prices by the PRC government. A decline in refined oil products prices will reduce our revenue derived from refining operations. An increase in the refined oil products prices, however, will increase the production costs of chemical products which use refined oil products as raw materials. We do not have, and will not have, control over the factors affecting international prices for crude oil and refined oil products. While we try to adjust the sale price of our products to track international crude oil price fluctuations, our ability to pass on the increased cost resulting from crude oil price fluctuations to our customers may be limited, and is dependent on international and domestic market conditions as well as the PRC government's price controls over refined oil products. Due to the volatile prices on the international oil market in recent years, the NDRC promulgated a price-setting mechanism for domestic refined oil products so that domestic refined oil products prices are in line with those on the international markets. Although the current price-setting mechanism for refined oil products in China allows the PRC government to adjust prices in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period, the PRC government still retains discretion as to whether or when to adjust the refined oil products prices. The PRC government generally exercises certain price controls over refined oil products once international crude oil prices experience sustained rises or become significantly volatile. For example, effective August 7, 2018, the NDRC raised the retail prices of gasoline and diesel by RMB 70 per tonne, respectively. Effective August 21, 2018, the NDRC lowered the retail prices of gasoline and diesel by RMB 50 per tonne, respectively. Effective September 4, 2018, the NDRC raised the retail prices of gasoline and diesel by RMB 180 per tonne and RMB170 per tonne, respectively. As a result, our results of operations and financial condition may be materially and adversely affected by the fluctuation of crude oil, natural gas and refined oil product prices.

Our continued business success depends in part on our ability to replace reserves and develop newly discovered reserves.

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves also expose us to inherent risks associated with drilling, including the risk that no proved oil or natural gas reserves might be discovered. Exploring for, developing and acquiring reserves is highly risky and capital intensive. The fluctuation in the prices of crude oil and natural gas will impact the estimation of our proved oil or natural gas reserves. In 2015, due to the capital restructuring of SIPC, our shareholding percentage in SIPC decreased to 30%. The restructuring was deemed to be effective as of January 1, 2015 and, consequently, the financial results of SIPC were not included in our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and our unaudited consolidated financial statements as of and for the six months ended June 30, 2017 and 2018. In addition, our estimated proved reserves of crude oil and natural gas as of December 31, 2015, 2016 and 2017 only included a share of the estimated proved reserves of SIPC reflecting our percentage of equity interest in SIPC. There can be no assurance that we would continue to actively expand our exploration and production activities or to acquire additional oil and gas reserves. Without reserve additions through further exploration and development or acquisition activities, or if the prices of crude oil and natural gas fall sharply, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

Future exploration and discovery of new reserves may not fully replace our existing oil and natural gas reserves. Due to persistently low prices of crude oil and natural gas, only large scale and high quality reserves are able to meet our development criteria. Therefore, the implementation of some of our exploration projects is not viable at the current crude oil price level, potentially leading to failure in fully replacing and supplementing our oil and natural gas reserves with additional reserves through future exploration. In the acquisition of exploration blocks, due to the limited nature of reservoir data, evaluation of underground resources are subject to inherent uncertainties and the acquired assets may fail to meet previous expectations.

We rely heavily on outside suppliers for crude oil and other raw materials, and we may experience disruption of our ability to obtain crude oil and other raw materials.

We purchase a significant portion of our crude oil and other feedstock requirements from outside suppliers located in different countries and areas in the world, of which a small proportion of crude oil processed by our refinery business was sourced from countries, regions or entities that are the subject of various U.S. economic sanction regimes administrated by the Office of Foreign Assets Control, or OFAC, of the U.S. Department of Treasury, such as Iran. In addition, our continued development may require us to source an increasing amount of crude oil from outside suppliers. We are subject to the political, geographical, economic, regulatory and legal risks associated with certain of these countries and areas, including the following:

- changes in international political and economic conditions, as well as social conditions;
- military hostilities, war, political unrest or acts of terrorism;
- challenges caused by distance, language, local business customs and cultural differences;

- difficulty in obtaining licenses, permits or other regulatory approvals from local authorities and in enforcing the oil and gas segment's rights under contracts;

- with respect to those countries that are members of OPEC, the lowering of petroleum production volume pursuant to OPEC policy;

- changes in laws, regulations or government policies, or in the interpretation or enforcement of laws, regulations and government policies, including changes driven by resource nationalism, or uncertainties thereof;

- measures which may be introduced to control inflation or changes in the rate or method of taxation;

- imposition of additional restrictions on currency conversion and remittances abroad or reduction in tariff protection and other import restrictions;

- natural disasters and epidemics, outbreaks or pollution; and

- changes in the usage and costs of state-controlled transportation services.

If our contractual relationships with one or more outside suppliers were terminated or suspended due to any natural disasters or political events, it is possible that we would not be able to find sufficient alternative sources of supply in a timely manner or on commercially reasonable terms. As a result, our business and financial condition would be materially and adversely affected.

The oil and natural gas reserves data in this offering memorandum are only estimates, and our actual production, revenues and expenditures with respect to our reserves may differ materially from these estimates.

There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves, and in the timing of development expenditures and the projection of future rates of production. The reserve data set forth in this offering memorandum represent third-party estimates only. Adverse changes in economic conditions may render it uneconomical to develop certain reserves. Our actual production, revenues, taxes and fees payable and development and operating expenditures with respect to our reserves may likely vary from these estimates.

The reliability of reserves estimates depends on:

- the quality and quantity of technical and economic data;

- the prevailing oil and gas prices applicable to our production;

- the production performance of the reservoirs; and

- extensive engineering judgments.

In addition, new drilling, testing and production results following the estimates may cause substantial upward or downward revisions in the estimates.

Oilfield exploration and drilling involves numerous risks, including risks that no commercially productive crude oil or natural gas reserves can be discovered and risks of failure to acquire or retain reserves.

Our oil and gas business is currently involved in exploration activities in various regions, including in some areas where natural conditions may be challenging and where the costs of such exploration activities may be high. As a result, our oil and gas business may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including, but not limited to, the following:

- unexpected drilling conditions;
- pressure or irregularities in geological formations;
- equipment failures or accidents;
- oil well blowouts;
- adverse weather conditions or natural disasters;
- compliance with existing or enhanced environmental regulations;
- governmental requirements and standards; or
- delays in the availability of drilling rigs and delivery and maintenance of equipment.

The future production of our oil and gas business depends significantly upon our success in finding or acquiring additional reserves and retaining and developing such reserves. If our oil and gas business fails to conduct successful exploration activities or to acquire or retain assets holding proved reserves, it may not meet its production or growth targets, and its proved reserves will decline as it extracts crude oil and natural gas from the existing reservoirs, which could adversely affect our business, financial condition and results of operations.

In addition, there can be no assurance that we can successfully locate sufficient alternative sources of crude oil supply or at all due to the complexity of the international political, economic and other conditions. If we fail to obtain sufficient alternative sources of crude oil supply, our results of operations and financial condition may be adversely affected.

As a guarantor of certain obligations and a creditor of SIPC, we are exposed to risk of loss if SIPC defaults.

As the former sole shareholder of SIPC, we have provided guarantees to SIPC to support its business operation, which include but are not limited to loan guarantees and performance guarantees. As of December 31, 2017, RMB 77,816 million guarantees provided by us to SIPC have not expired. Although our equity interest in SIPC has decreased to 30%, we remain bound by such guarantees and our liabilities under such guarantees have not decreased proportionally with the decrease of our equity interest. If SIPC defaults for any reason, we may be obligated to perform the contracts as a primary obligor or make payments on behalf of SIPC. In addition, we have extended loans in an aggregate amount of RMB 264,328 million to SIPC as of June 30, 2018, most of which are unsecured.

Due to the unprecedented volatility in the oil and gas industry over the last few years, SIPC has incurred significant losses in the past years and its repayment ability has been materially affected. As a result, if SIPC has limited or no financial resources to make full payment, our return and results of operations could be materially and adversely affected.

Our business faces operational risks and natural disasters that may cause significant property damage, personal injuries and interruption of operations, and we may not have sufficient insurance coverage for all the financial losses incurred by us.

Exploring for, producing and transporting crude oil and natural gas and producing and transporting refined oil and chemical products involves a number of operating hazards. Our operations are subject to significant hazards and risks inherent in refining operations and in transporting and storing crude oil, intermediate products and refined oil products. These hazards and risks include, but are not limited to, natural disasters, fires, explosions, pipeline ruptures and spills, third-party interference and mechanical failure of equipment at our or third-party facilities, any of which could result in production and distribution difficulties and disruptions, environmental pollution, personal injury or wrongful death claims and other damage to our properties and the property of others. There is also risk of mechanical failure and equipment shutdowns both in general and following unforeseen events. In such situations, undamaged refinery processing units may be dependent on or interact with damaged process units and, accordingly, are also subject to being shut down. Even though we have a strong institutional focus on the safety of our operations and have implemented health, safety and environment management system within our company with the view to preventing accidents and reducing personal injuries, property losses and environment pollution, our preventative measures may not be effective. We also maintain insurance coverage on our property, personnel, plant, equipment and inventory and potential third party liability, but our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. Significant operating hazards and natural disasters may cause interruption to our operations, property or environmental damages as well as personal injuries, and each of these incidents could have a material adverse effect on our financial condition and results of operations.

Our business operations may be adversely affected by present or future environmental protection regulations.

We incur, and expect to continue to incur, substantial capital, operating, maintenance and remediation costs relating to compliance with increasingly complex laws and regulations for the protection of the environment and human health and safety, including:

- costs of preventing, controlling, eliminating or reducing certain types of emissions to air and discharges to the sea, including costs incurred in connection with government action to address the risk of spills and concerns about the impacts of climate change;

- remediation of environmental contamination and adverse impacts caused by our activities or accidents at various facilities owned or previously owned by us and at third-party sites where our products or waste have been handled or disposed of;

- compensation of persons and/or entities claiming damages as a result of our activities or accidents; and

- costs in connection with the decommissioning of drilling platforms and other facilities.

For example, as an integrated petroleum and petrochemical company, we are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

- the imposition of fees for the discharge of waste substances;
- the levy of fines and payments for damages for serious environmental offenses;
- the government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage; and
- litigations and liabilities arising from pollutions and damages to the environment and public interests.

Our production operations produce substantial amounts of wastewater, gas and solid waste materials. Although we believe we maintain waste materials treatment and pollution control systems in line with applicable laws and regulations, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution. However, the PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

In recent years, we have commenced exploration and production of unconventional oil and gas resources, such as shale oil and gas and coal bed methane, through the application of relatively advanced and expensive technologies. As a result, our unconventional oil and gas operations are subject to the limitations of unproven technology and expose us to higher environmental compliance standards and requirements. In the event of any failure to comply with such standards and requirements, we may be subject to public concerns about our unconventional oil and gas operations, which may also harm our corporate reputation.

Furthermore, in countries where we operate or expect to operate in the near future, new laws and regulations, the imposition of stricter licensing requirements, increasingly strict enforcement of or new interpretations of existing laws and regulations, the remedial measures taken following operational catastrophes in which we or members of our industry are involved or the discovery of previously unknown contamination may require future expenditures in order to, among other things:

- modify operations;
- install pollution control equipment;
- implement additional safety measures;
- perform site cleanups;
- curtail or cease certain operations;
- temporarily shut down our facilities;
- meet technical requirements;

- increase monitoring, training, record-keeping and contingency planning; and

- establish credentials in order to be permitted to commence drilling.

Compliance with laws, regulations and obligations relating to climate change and environmental protection could result in substantial capital expenditures, reduced profitability as a result of increased operating costs, and adverse effects on revenue generation and strategic growth opportunities.

Our business may be adversely affected by actions and regulations prompted by global climate changes.

As the international community has reached consensus on the importance and urgency of addressing climate change, the oil and gas industry in which we operate is drawing increasing concerns about global climate change in recent years. A number of international, national and regional measures to limit greenhouse gas emissions have been enacted. The implementation of such measures in a number of countries and other potential legislation limiting emissions could affect the global demand for fossil fuels. If China or other countries in which we operate or desire to operate enact new laws that focus on limiting greenhouse gas emissions, it could result in substantial capital expenditure from compliance with these laws, and revenue generation and strategic growth opportunities could also be adversely impacted. In November 2014, China and the United States made joint announcement against the threat of climate change, whereby China undertook to peak CO2 emissions by around 2030 or earlier if possible, and to increase the proportion of non-fossil fuel based energy to approximately 20 percent by 2030. Following the pledge, the NDRC adopted the Provisional Measures on the Management of Carbon Emission Trading on December 10, 2014, with the aim of fully implementing a nationwide greenhouse gas emissions trading market from 2016. We are expected to be recognized as an emission-control enterprise under such measure along with most of the other Chinese enterprises. As a result, a majority of our subsidiaries operating in the PRC may be subject to mandatory emissions trading and required to obtain emission quota, which could adversely affect our business and results of operations.

Our operations may be adversely affected by cyber-attacks or similar disruptions.

We devote 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.

Our overseas exploration, development and operations are exposed to political, economic, regulatory and legal risks, and may be subject to additional compliance costs and risks.

We are subject to various political, legal and regulatory environments in foreign countries and regions where we and our affiliates operate, some of which are known to be unstable and differ in certain significant respects from those prevailing in developed countries. Some countries and regions where we have made significant investments are among the most undeveloped countries as defined by the United Nations, and their laws, regulations and policies are less established or predictable due to political and economic uncertainties. Furthermore, operations in foreign countries considered fragile states may face a number of obstacles, such as pressure from external or government groups, social unrest, general strikes and other labor disputes, crime and corruption, which could result in disruption, suspension or termination of our or our affiliates' operations. In addition, the results of our or our affiliates' operations may be adversely affected by a number of factors in the countries and regions in which we operate or have interests, including the same risks as those associated with certain countries and regions of our third-party suppliers, as set out in the risk factor "— We rely heavily on outside suppliers for crude oil and other raw materials, and we may experience disruption of our ability to obtain crude oil and other raw materials."

We have expanded our global footprints in many of our business segments in recent years through mergers and acquisitions, and we plan to continue to grow our business internationally. As our international operations expand into many foreign jurisdictions, we face new regulatory environment and compliance challenges that we may not have familiarity with. From time to time, our international operations and our foreign management personnel may be involved in governmental investigations and other legal proceedings for alleged illegal business, improper payments and/or personal conducts. Government investigations and legal proceedings against us or our affiliates regarding violations of law may lead to judgments, settlements, fines, penalties or other results adverse to us, which could materially and adversely affect our business, financial condition or results of operations, and cause serious reputational harm to us. In addition, future developments in the ongoing proceedings and other potential proceedings, such as responding to the requests of governmental authorities and cooperating with them, could divert our management's attention and resources from other issues facing our business. Furthermore, we may be required to devote significant additional resources to understanding, adapting and formulating our corporate governance and regulatory compliance framework to, and monitoring changes in, the laws and regulations in multiple foreign jurisdictions where have business operations, and incur high costs in structuring and operating our businesses to comply with such laws and regulations and implementing and administering related internal policies and procedures.

The Group may not be able to detect and/or prevent any prior or future fraud, corruption or other misconduct committed by its employees or third parties.

Despite the fact that the Group has in place relevant policies and mechanism to monitor the management system, and a supervisory body to oversee and inspect the system from time to time, fraud or other misconduct from the past or in the future by the Group's employees, such as bribery, unauthorised business transactions, breach of its internal policies and procedures and violation of law, or by third parties, may be difficult to detect or prevent. It could subject the Group to financial loss and sanctions imposed by governmental authorities while seriously damaging its reputation. It may also impair the Group's ability to effectively attract customers, obtain financing on favourable terms, compete in invitations to tender and conduct other business activities. While the Group's internal control policies and procedures are designed to punish employees that participate in bribery or otherwise obtaining improper benefits from their positions, such policies and procedures may not be effective or comprehensive, and thus it may be unable to prevent, identify, or address non-compliance and/or suspicious transactions in a timely manner or at all. Therefore, the Group will continue to face the risk that fraud, corruption and other misconduct may occur in the future, which may have an adverse effect on the Group's business reputation, financial condition and results of operations.

Our development projects and production activities involve many uncertainties and operating risks that can prevent us from realizing profits and cause substantial losses.

Our development projects and production activities may be curtailed, delayed or cancelled for many reasons, including equipment shortages or failures, natural hazards, unexpected drilling conditions or reservoir characteristics, pressure or irregularities in geological formations, accidents, mechanical and technical difficulties and industrial action. These projects and activities, which include projects focused on unconventional oil and gas exploration and development, will also often require the use of new and advanced technologies, which may be expensive to develop, purchase and implement, and may not function as expected. There is a risk that development projects that we undertake may not yield adequate returns. In addition, our development projects and production activities, particularly those in remote areas, could become less profitable, or unprofitable, if we experience a prolonged period of low oil or gas prices or cost overruns.

We may encounter problems with our joint projects and disputes with our joint venture and other business partners may adversely affect our business, financial condition and results of operations.

In the course of our business, we have in the past formed, and will in the future continue to form, joint ventures, consortiums or other cooperative relationships with other parties, including in some cases foreign governmental entities or foreign companies, to jointly engage in certain business activities, which include, among others, jointly operating the oilfields. We also rely on third-party operators to operate certain of our projects for our overseas business and we may be unable to control the actions of such third-party operators.

We may bear joint and several liabilities to the project owners or other parties with third-party operators, other consortium members or joint venture or business partners under the relevant consortium, joint venture or other agreements, and, as a result, we may incur damages and other liabilities for any defective work or other breaches by third-party operators, other consortium members or joint venture or business partners.

In addition, if there are disagreements between us and our joint venture partners regarding the business and operations of the joint projects, there can be no assurance that they will be able to resolve them in a manner that will be in our best interests. Certain major decisions, such as selling or refinancing these projects, may require the consent of all other partners. These limitations could adversely affect our ability to sell, refinance or otherwise operate and profit from these projects.

Any of these and other factors may have an adverse effect on the performance of our oil and gas joint projects and expose such projects to a number of risks, including the risk that these projects may not be able to fulfill their obligations under contracts with customers, resulting in disputes not only between us and our partners, but also between the joint ventures and their customers, or create unexpected complications. Such a material adverse effect on the performance of the joint projects may in turn adversely affect our business, financial condition and results of operations.

We are dependent upon subcontractors and other third parties for various services and products in our business.

We may from time to time subcontract portions of our engineering and construction projects to independent third-party subcontractors. In addition, if we need extra manpower due to a shortage of labor, or in order to accelerate the progress of project work, we may need to subcontract labor services internally, hire short-term temporary workers, or engage independent third-party subcontractors. We also rely on third-party manufacturers or other service providers for production and supply of certain parts, components and services in connection with our resources development, equipment manufacturing and property development operations. Outsourcing to subcontractors and other third parties supplements our capacity, reduces our need to employ a large workforce, including skilled and semi-skilled labor in different specialized areas, and increases our flexibility and cost effectiveness in carrying out contracts. We have established a system with respect to the selection and control of subcontractors in our engineering and construction business, which involves, among others, maintaining a regularly updated list of qualified subcontractors and entering into agreements with them to set forth each party's rights and obligations. In our other businesses, we also endeavor to source products and services from third-party manufacturers and service providers whom we believe are able to meet our quality, delivery schedule and other requirements. Nevertheless, we may not be able to monitor the performance of these subcontractors and other third parties as directly and efficiently as our own staff. In addition, qualified subcontractors and other third parties may not always be readily available when our needs for outsourcing arise. If we are unable to hire qualified subcontractors and other third parties, our ability to complete projects or other contracts could be impaired. If the amounts that we are required to pay to subcontractors and other third parties exceed what we have estimated, especially in the case of customer contracts with a pre-agreed price, we may suffer losses on those contracts. Outsourcing also exposes us to risks associated with non-performance, delayed performance or substandard performance by subcontractors or other third parties. As a result, we may experience a deterioration in the quality or late delivery of our construction projects, incur additional costs due to delays or higher prices in sourcing the services, equipment or supplies, or be subject to liability under the relevant contract for the non-performance, delayed performance or substandard performance of our subcontractors or other third parties. Such events could have a material and adverse impact upon our profitability, financial performance and reputation, and may result in litigation or damage claims against us.

We face challenges in achieving our strategic objective of successfully exploiting growth opportunities.

An important element of our strategy is to continue to pursue attractive and profitable growth opportunities available to us, by both enhancing and repositioning our asset portfolio and expanding into new markets. The opportunities that we are actively pursuing may involve the acquisition of businesses or properties that complement or expand our existing portfolio.

Our ability to successfully implement this strategy will depend on a variety of factors, including our ability to:

- identify acceptable opportunities;
- negotiate favorable terms;
- develop new market opportunities or acquire properties or businesses promptly and profitably;
- integrate acquired properties or businesses into our operations;
- arrange financing, if necessary; and
- comply with legal regulations.

As we pursue business opportunities in new and existing markets, we anticipate significant investments and costs in connection with the development of such opportunities. We may incur or assume unanticipated liabilities, losses or costs associated with assets or businesses acquired. Any failure by us to successfully pursue and exploit new business opportunities could result in financial losses and inhibit growth.

Any such new projects that we acquire will require additional capital expenditure and will increase the cost of our discoveries and development. These projects may also have different risk profiles than our existing portfolio. These and other effects of such acquisitions could result in our having to revise either or both of our forecasts with respect to unit production costs and production. To the extent that some acquisitions may have operational complexities due to the nature of their business, the election to not fully integrate such acquisitions may be made if such integration does not quantitatively improve operational or financial efficiencies. Some integration efforts will be phased in to ensure that desired efficiencies are quickly and cost effectively realized. Any element of integration must be justified rationally on potential cost savings realized by the business. If we are unable to successfully integrate some or all of the operations of our acquired overseas businesses or future acquisitions, this could have a material adverse effect on our business and operations.

In addition, the pursuit of acquisitions or new business opportunities could divert financial and management resources away from our day-to-day operations to the integration of acquired operations or properties. We may require additional debt or equity financing to undertake or consummate future acquisitions or projects, and such financing may not be available on terms satisfactory to us, if at all, and it may, in the case of equity, be dilutive to our earnings per share.

Our exploration, development and production activities and our refining and petrochemical business require substantial expenditure and investments and our plans for and ability to make, such expenditures and investments are subject to various risks.

Exploring, developing and producing crude oil and natural gas fields are capital-intensive activities involving a high degree of risk. Our ability to undertake exploration, development and production activities and make the necessary capital expenditures and investments is subject to many risks, contingencies and other uncertainties, which may prevent our oil and gas business from achieving the desired results, or which may significantly increase the expenditures and investments that our oil and gas business makes, including, but not limited to, the following:

- ability to generate sufficient cash flows from operations to finance our expenditures, investments and other requirements, which are affected by changes in crude oil and natural gas prices and other factors;

- availability and terms of external financing;

- mix of exploration and development activities conducted on an independent basis and those conducted jointly with other partners;

- extent to which our ability to influence or adjust plans for exploration and development related expenditures is limited under joint operating agreements for those projects in which we have partners;

- government approvals required for exploration and development-related expenditures and investments in jurisdictions in which we conduct business; and

- economic, political and other conditions in jurisdictions in which we conduct business.

We intend to expand our exploration and production segment and, from time to time, construct new and/or revamp existing refining and petrochemical facilities. Expansion and construction activities of this nature require substantial capital expenditures and investments, and there can be no assurance that the cash generated by our operations will be sufficient to fund these development plans or that our actual future capital expenditures and investments will not significantly exceed our current planned amounts. Our inability to obtain sufficient funding for development plans could adversely affect our business, financial condition and results of operations.

Our indebtedness level could have an adverse effect on our financial condition, diminish our ability to raise additional capital to fund our operations and limit our ability to explore business opportunities. We had net current liabilities at times during the past few years, which may expose us to liquidity risks.

We maintain a certain level of indebtedness to finance our operations and expect to incur significant capital expenditures for maintaining our existing facilities and investing in production capacity expansions and possible acquisitions. We recorded net current liabilities of RMB 105,045 million, RMB 68,123 million and RMB 47,010 million as of December 31, 2015, 2016 and 2017, respectively, and net current assets of RMB 63,817 million as of June 30, 2018. We may continue to have net current liabilities in the future as our business expands and we cannot assure you that we will not have net current liabilities position in the future. Our indebtedness could have an adverse effect on us, for example, by:

- increasing our vulnerability to adverse general economic or industry conditions;

- limiting our flexibility to plan for, or react to, changes in our business or the industry in which we operate;

- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding;

- restricting us from making strategic acquisitions or taking advantage of business opportunities; and

- making it more difficult for us to satisfy our obligations with respect to our debt.

Our indebtedness will require us to maintain an adequate level of cash flow to satisfy our debt obligations as they become due. Our primary sources of funding include cash inflow from operation activities and short-term and long-term borrowings. Cash inflow from our operating activities were RMB 2,736 billion and RMB 1,470 billion in 2017 and the six months ended June 30, 2018, respectively. As of June 30, 2018, the total lines of credit available to us were approximately RMB 1,600 billion, of which approximately RMB 1,100 billion was unused. However, there can be no assurance that we will always be able to generate enough cash through operating activities or financing activities to repay or to refinance our indebtedness upon maturity. Any decrease in our cash flow from operating or financing activities in the future may have a material and adverse effect on our business, liquidity, financial condition, results of operations and our ability to repay our indebtedness, including the Notes.

Our activities in certain countries or with certain individuals or entities that are the subject of U.S. sanctions could result in negative media and investor attention and materially and adversely affect investment in the Notes.

In recent years, the U.S. government has implemented a number of sanctions targeting non-U.S. companies that engage in certain Iran-related transactions and broadened the range of sanctionable Iran-related transactions. For example, under the Iran Sanctions Act, or the ISA, which has been amended and expanded on several occasions since 1996, including by the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, the President of the United States is authorized to initiate an investigation into the activities of non-U.S. companies in Iran's energy sector and to impose sanctions on companies that, among other things, make investments above certain thresholds that contribute to the development of Iranian petroleum resources (including natural gas resources); export certain levels of refined oil products to Iran; provide certain types and levels of assistance to Iran in developing petroleum resources, producing refined oil products, or importing refined oil products; transport crude oil from Iran; or conceal the Iranian origin of crude oil and refined petroleum products transported on vessels.

On July 14, 2015, the EU, the P5+1 countries (China, France, Russia, the United Kingdom, the United States and Germany) and Iran reached an agreement called the Joint Comprehensive Plan of Action (the "JCPOA") regarding limits on Iran's nuclear activities and relief under certain U.S., EU and UN sanctions regarding Iran. On January 16, 2016, in recognition of the International Atomic Energy Agency having verified that Iran has met its initial nuclear compliance commitments under the JCPOA, many, but not all, economic and financial sanctions targeting non-U.S. persons under the ISA and other U.S. sanctions laws and Executive Orders were suspended. On May 8, 2018, the U.S. President Donald Trump announced that the United States was withdrawing from its participation of the JCPOA, and would re-impose the sanctions that were lifted under the JCPOA following a 90- or 180-day wind-down period ending on August 6 or November 4, 2018, depending on the specific sanctions. Among the sanctions to be re-imposed on November 4, 2018 are sanctions on Iran's energy sector, including "secondary sanctions" applicable to non-U.S. persons that engage in certain transactions with respect to Iran's energy sector.

We engage in certain business activities in or related to Iran that could be interpreted as activities targeted by the ISA or other U.S. sanctions. In addition, we engage, or have engaged, through various group entities in limited international oil and gas production investment and related services, petrochemical engineering technical services, and international oil and gas trading activities with certain individuals or entities and in countries that are the subject of other U.S. economic sanctions regimes, including Syria and Russia. It is possible that, as a result of activities by us or our affiliates in these countries and with these individuals or entities, we may be subject to negative media or investor attention, which may distract management, consume internal resources and negatively affect investors' perception of our company.

Although our overall operations and activities in those countries and with those individuals or entities that are the subject of any U.S. sanction regimes represent only a small percentage of our consolidated assets, revenues and net income, we cannot predict the interpretation or implementation of the sanction-related government policies by the U.S. government with respect to any current or future activities by us or our affiliates in these countries or with these individuals or entities. If it is determined that we engage in activities targeted by the ISA or certain other U.S. sanctions laws, regulations or Executive Orders, we could be subject to secondary sanctions ranging from restrictions on U.S. exports or bank financing to outright blocking of our property within the U.S. jurisdiction. If the most extreme sanction, blocking, were applied to our property, including property of our controlled affiliates, we and the Issuer could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in the Notes and distributions to U.S. individuals and entities with respect to the Notes could also be prohibited. We cannot assure you that we will not be the subject of sanctions under the ISA or other U.S. laws in the future due to our activities in Iran or other sanctioned countries or with any sanctioned individuals or entities. If we were sanctioned under any such laws, it could materially and adversely affect the market price of the Notes and you might be unable to sell, or receive distributions with respect to, the Notes. In addition, certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions, such as Iran.

Risks Relating to Our Industry

Our operations may be adversely affected by the global and domestic economic conditions.

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. Although nations around the world have adopted various economic policies to mitigate the adverse influences caused by factors such as the slowdown of world economy and the European financial crisis, it is uncertain how quickly the world economy would grow going forward.

Our operations may also be adversely affected by the ongoing US-China trade conflicts. In June 2018, each of the U.S. government and the Chinese government announced the imposition of a 25% tariff on approximately $50 billion worth of imports from the other country, $34 billion of which took effect in July 2018, and the remaining $16 billion took effect in August 2018. The U.S. government has also announced a proposal to impose 25% tariff on US$ 200 billon additional imports from China which may come into effect as soon as the beginning of September 2018, and China announced that it would impose up to 25% tariff on US$ 60 billion of additional imports from the U.S. Crude oil from the U.S. was at a time included in China's tariff list of U.S. imports, but was later removed. LNG on the other hand was and continues to be on the list. While we do not source any amount of significance of crude oil or other supplies from the U.S., nor do we derive any significant revenues from exports to the U.S. market, the increased tariffs, along with any additional tariffs or other trade actions that may be implemented by each of the U.S. and China, may increase the cost of certain materials and/or products that we import from the U.S., and make our products in the U.S. less competitive, thereby adversely affecting our profitability and our business. An escalation of trade war between the U.S. and China would likely have a material and adverse impact on the global economy, and a slowdown in the global economy could have a material and adverse impact on our operations and financial results and it could materially and adversely affect the market price and the liquidity of the Notes.

Our operations may be adversely affected by the cyclical nature of the market.

Most of our revenues are attributable to sales of refined oil products and chemical products, and certain of these businesses and related products have historically been cyclical and sensitive to a number of factors that are beyond our control. These factors include the availability and prices of feedstock and general economic conditions, such as changes in industry capacity and output levels, cyclical changes in regional and global economic conditions, prices and availability of substitute products and changes in consumer demand. Although we are an integrated company with upstream, midstream and downstream businesses, we have limited ability to mitigate the adverse impact of the cyclicality of global markets.

We face strong competition from domestic and foreign competitors.

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside China, which have recently become more significant participants in the petroleum and petrochemical industry in China. The PRC government has gradually eased the restrictions on the right to use imported crude oil and relaxed control over the right to import refined oil products. This development may lead to refining overcapacity in China and intensify competition among local refineries. The relaxation of import control may drive up cost of crude oil imports and reduce the prices of refined oil products, thus adversely impact our refining margin. The Chinese crude oil and refined oil product markets are becoming increasingly dynamic and internationalized with implementation of tariff concessions and relaxation of market access as part of China's commitment for its accession to the WTO. The potential trade conflict and increased trade protection measures implemented by several countries may adversely affect the production, trade or demand in petroleum and petrochemical industries, and may have a significant impact on our results of operations. In the wholesale market of refined oil products previously dominated by PetroChina and us, we are facing stronger competition with new players and imported products entering the market. Our market share of chemical products is also under stronger competitive pressure due to the increasingly active participation of diversified new market players including multinational petroleum and petrochemical companies and domestic private enterprises. In addition, we also expect to face competition in both domestic and international petrochemical product market as a result of our domestic and international competitors' increasing production capacity. Increased competition may have a material adverse effect on our financial condition and results of operations.

Risks Relating to Doing Business in the PRC

The insolvency laws of the PRC may differ from those of other jurisdictions with which the holders of the Notes are familiar.

Because the Company is incorporated under the laws of the PRC, any insolvency proceeding relating to the Company would likely involve PRC insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

Government regulations may limit our activities and affect our business operations.

The PRC government, though gradually liberalizing its regulations on entry into the petroleum and petrochemical industry, continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include granting licenses to explore and produce crude oil and natural gas, granting licenses to market and distribute crude oil and refined petroleum products, adjusting upper limit of the retail prices for gasoline and diesel; collecting special gain levies, formulating import and export quotas and procedures, imposing safety, environmental and quality standards, and promulgating policies to conserve energy and reduce emission; meanwhile, there could be potential changes to macroeconomic and industry policies such as further improvement of pricing mechanism of petroleum products, reforming and improvement of pricing mechanism of natural gas, and reforming resource tax and environmental tax, which could affect our production and operations. Such control mechanisms may have material adverse effects on our operations and profitability.

On the other hand, the PRC government has been gradually relaxing the control over imports of crude oil and refined oil products, which may result in refining overcapacity in China and intensify competition among refining companies in China. Such relaxation of the import control may have material and adverse effects on our refining margin, including procurement cost of imported crude oil and lower prices of refined oil products.

Some of our development plans require compliance with state policies and governmental regulation.

We are currently engaged in a number of construction, renovation and expansion projects. Some of our large construction, renovation and expansion projects are subject to governmental confirmation and registration. The timing and cost of completion of these projects will depend on numerous factors, including when we can receive the required confirmation and registration from relevant PRC governmental authorities and general economic conditions in China. If any of our key projects required for our future growth are not confirmed or registered, or not confirmed or registered in a timely manner, our results of operations and financial condition could be adversely impacted.

We are subject to extensive control and supervision by various PRC governmental authorities and our activities and business operations may be limited or adversely affected by government actions.

We, as one of the key SOEs under the direct supervision of the SASAC, are subject to various inspections, examinations, audits, inquiries or similar actions by other PRC governmental authorities. While we operate our business pursuant to applicable laws and regulations, we cannot predict the outcome of such governmental audits and inspections. For examples of findings of audits and governmental actions that have affected our results, see the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies, Judgments and Estimates — Restatement of Certain Line Items." If we are found to have material misstatements or omissions in our financial reports or material incompliance with laws or other irregularities in our operation, we may be subject to fines and other disciplinary actions imposed by such government authorities, and our reputation, business and financial conditions may be materially and adversely affected.

In addition, the PRC government has identified the reform of SOEs as an essential step in the structural transformation of China's economy in recent years, with a goal to increase the competitiveness and promote the growth of SOEs. Such reform is taking place by various means, such as requiring the SOEs to bring in multiple types of investors or sell stake to their employees, promoting mergers and acquisitions among the large SOEs, and forcing the merger of underperforming and smaller SOEs into other centrally owned SOEs. If we or any of our subsidiaries are required by the PRC government to participate in the reform, our activities and business operations may be materially affected.

Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results.

We receive a significant majority of our revenues in Renminbi. A portion of such revenues will need to be converted into other currencies to meet our foreign currency needs, which include, among other things:

- import of crude oil and other materials;
- debt service on foreign currency-denominated debt;
- purchases of imported equipment; and
- payment of the principal and interest on bonds issued overseas.

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of Renminbi.

The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the changes in the PRC's and international political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. On June 19, 2010 and August 11, 2015, respectively, the People's Bank of China (the "PBOC") decided to further promote the reform of exchange rate regime and enhance the flexibility of Renminbi exchange rate. Most of our crude oil purchases are settled in foreign currencies calculated on the basis of prices in U.S. dollar. Fluctuations in the exchange rate of the Renminbi against the U.S. dollars and certain other foreign currencies may adversely affect our oil and gas business, financial condition and results of operations. Meanwhile, the PRC-government-implemented pricing mechanism of refined oil products is pegged to the exchange rate of the Renminbi against the U.S. dollar. Thus 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 fluctuation of Renminbi exchange rate, which largely offsets the impact of Renminbi exchange rate fluctuation on the purchase cost of crude oil.

Uncertainties with respect to the PRC legal system could limit the protections available to the Company.

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate and predict the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in China as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with future partners, service providers and suppliers. The effect of future developments in the PRC legal system cannot be predicted, particularly with regard to the oil and gas industry in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Risks Relating to the Notes and the Guarantees

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or their respective advisors.

Facts and statistics in this offering memorandum relating to China's economy and the industries in which we operate are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. If the calculation and collection methods are ineffective or there are other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for Chinese securities is, to varying degrees, influenced by economic and market conditions in other markets, especially those in other regions in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The Issuer is a special purpose vehicle with no business activities of its own and will be dependent on funds from the Guarantor to make payments under the Notes.

The Issuer was established by the Guarantor specifically for the purpose of raising funds through the issue of the Notes and will on-lend the net proceeds from issuing the Notes to the Guarantor and/or its subsidiaries. The Issuer does not and will not have any material assets but it will receive repayments from the Guarantor and/or its subsidiaries in respect of loans made by the

Issuer to those companies, which will be the only material sources of funds available to meet the claims of holders of the Notes. As a result, the Issuer is subject to all the risks to which the Guarantor is subject, to the extent that such risks could limit their ability to satisfy in full and on a timely basis their respective obligations to the Issuer under any such loans.

The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's and our existing and future subsidiaries, other than the Issuer, and effectively subordinated to the Issuer's and our secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and our existing and future subsidiaries, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and our subsidiaries, and the Issuer and we may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer or us. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and us is subject to various restrictions under applicable law. Each of the Issuer and our subsidiaries are separate legal entities, and our subsidiaries (including any subsidiaries of the Issuer that may be established in the future) have no obligation to pay any amounts due under the Notes or make any funds available therefor, whether by dividends, loans or other payments. The Issuer's and our right to receive assets of any of the Issuer's and our subsidiaries, respectively, upon that subsidiary's liquidation or reorganization will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or we are creditors of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and our subsidiaries and any subsidiaries that the Issuer or we may in the future acquire or establish.

The Notes are the Issuer's and our unsecured obligations and will (i) rank equally in right of payment with all the Issuer's and our other present and future senior unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and our present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and our present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans or bonds will be prior with respect to those assets. The Indentures will permit the Guarantor to incur the secured Relevant Indebtedness up to 20% of the Guarantor's Adjusted Consolidated Net Worth without sharing the collateral with the Notes. In the event of the Issuer's or our bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to you ratably with all of our other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid. The Issuer does not have any subsidiary and does not have any indebtedness, other than the Notes.

There is uncertainty relating to the enforceability of the Guarantees of the Notes.

We will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes. The guarantee of foreign indebtedness by a PRC-incorporated entity is no longer subject to approval by the SAFE. Pursuant to the *Notice on the Promulgation of the Provisions on Foreign Exchange Administration of Cross-border*

Guarantee issued by the SAFE on May 12, 2014, effective from June 1, 2014 (the "Cross-border Guarantee Provisions"), any guarantee provided by PRC-incorporated entities in favor of offshore creditors in connection with debt financing granted to offshore debtors is required to be registered with the local branch of the SAFE. Under the Cross-border Guarantee Provisions, we are required to submit the Guarantees to the Beijing Branch of the SAFE (the "Beijing Branch") as a procedural matter within 15 Beijing business days after the date of execution of the Guarantees of the Notes.

In the event that we are required to perform our payment obligations under the Guarantees of the Notes, we shall submit the registration documents issued by the Beijing Branch to banks, which upon reviewing such registration documents shall process our remittance request directly. We intend to execute and register the Guarantees with the Beijing Branch as soon as reasonably practicable after the pricing date, and we will use our commercially reasonable best efforts to complete the registration of the Guarantees with the Beijing Branch as described under "Description of the Notes and Guarantees — Completion of the Registration of the Guarantees with the Beijing Branch." However, we will not be required under the Indentures to make an offer to repurchase all of the Notes for which registration has not been completed.

Pursuant to the Cross-border Guarantee Provisions, the registration or record-filing of a cross-border guarantee contract by a local branch of the SAFE, and other administrative matters and requirements specified therein, shall not constitute prerequisites for the cross-border guarantee contract to enter into effect. However, failure to complete the registration as required may result in a fine up to RMB 300,000 under the Cross-border Guarantee Provisions. In addition, in the event the Guarantor fails to complete the registration with the Beijing Branch, the Guarantor shall, before performing the obligations under the Guarantees of the Notes, complete a remedial registration with the Beijing Branch. Only by submitting the registration documents or remedial registration documents to banks may the Guarantor be able to remit funds outside PRC in order to perform its payment obligations under the Guarantees. If the guarantor fails to complete the registration, guarantees with respect to the Notes may encounter uncertainty under PRC law against the assets of the Guarantor within the PRC. The Cross-border Guarantee Provisions may be subject to a degree of executive and policy discretion and interpretation by the SAFE. See "Description of the Notes and Guarantees."

The Guarantees and the Indentures, which set out the terms of the Guarantees, are governed by the laws of the State of New York. Judgments of foreign courts, including New York courts, are unlikely to be recognized or enforced in the PRC unless there is a treaty between the PRC and the country where the judgment is made or on reciprocity between jurisdictions. The PRC does not have any treaties or other agreements that provide for reciprocal recognition and enforcement of foreign judgments with the United States. As a result, you may need to pursue claims based on the Guarantees and the Indentures in the PRC courts. See "Enforceability of Foreign Judgments and Civil Liabilities."

If the Company fails to complete the post-issuance report to the NDRC in connection with the Notes, NDRC may impose penalties or other administrative procedures on the Company.

On September 14, 2015, the NDRC promulgated the Notice on the Administrative Reform of the Registration of Offshore Debt Issuances (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "NDRC Notice") pursuant to which if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, such PRC enterprise must in advance of issuing such bonds, file certain prescribed documents with the NDRC and obtain a registration certificate from the NDRC in respect of such issue. According to the NDRC Notice, the NDRC will decide whether to accept a submission within five working days upon receipt of the submission and is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the bonds to the NDRC within 10 business days upon the completion of the bond issue.

On February 9, 2018, the NDRC issued the Pilot Approval according to which the NDRC granted an annual foreign debt amount to certain pilot enterprises which includes the Company and such pilot enterprises may arrange the use of the foreign debts within the granted annual foreign debt quota obtained by it from the NDRC. Within the granted annual foreign debt quota, the pilot enterprise is not required to obtain the pre-issuance registration certificate under the NDRC Notice, although it still has to make the post-issuance filing with the NDRC within 10 business days after the settlement of the notes.

The NDRC Notice is silent on the legal consequences of non-compliance with the pre-issue registration requirement. In the worst case scenario, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes. Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Notice.

On June 15, 2018, the officer from the NDRC answered reporter's questions on the issue of foreign debts issued by enterprises (the "Answers"). According to the Answers, in order to further standardize market behavior, promote the enterprises to comply with the relevant rules of foreign debts registration and prevent the risk of foreign debts, NDRC intends to implement "three warnings" to further standardize the foreign debts registration: (i) if the enterprise issued foreign debts without prior registration or violated other relevant provisions of the NDRC Notice for the first time, the NDRC will interviewed the enterprises, relevant underwriters, law firms and other intermediaries, and issued warning notices on the official website of the NDRC; (ii) if such violations occurred again, NDRC will warn the relevant enterprises and intermediaries in real name on the official website of the NDRC; (iii) if such violations occurred for the third time, NDRC will blame the relevant enterprises and intermediaries together with relevant departments, suspend the foreign debts registration of the violating enterprises and suspend relevant intermediaries to involve in the deals of foreign debts issuance. The Company has undertaken to notify the NDRC of the particulars of the issue of the Notes within the prescribed period under the NDRC Notice and the Pilot Approval. Since the NDRC Notice is without any detailed implementation procedures, there is no assurance that the NDRC will not issue further implementation rules or notices which may require additional steps in terms of the registration or provide sanctions or other administrative procedures the NDRC may impose in case of failure of such registration with, or post-issuance report to, the NDRC. The Company has obtained the Quota on February 9, 2018. If the Company does not report the post-issuance information with respect to the Notes within the timeframe as provided under the NDRC Notice and the Pilot Approval, the NDRC may impose sanctions or other administrative procedures on the Company which may have a material adverse impact to its business, financial condition or results of operations.

The Notes and the Guarantees are unsecured obligations.

As the Notes and the Guarantees are unsecured obligations, their repayment may be compromised if:

- the Company or the Issuer enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Issuer's or our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or our indebtedness.

Although we do not expect any of these events to occur with respect to the Issuer, since it is not permitted under the terms of the Indentures to carry on any business activities other than in connection with the issuance of the Notes and advance of the proceeds therefrom to us or our subsidiaries, if any of these events occur, the Issuer's and our assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

An active trading market may not develop for the Notes and the trading price of the Notes could be materially and adversely affected.

The Notes are a new issue of securities with no established trading market. The Issuer has received an eligibility letter from the SEHK for listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. However, we cannot assure you that the Notes will be or remain listed. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the Notes as permitted by applicable laws. However, the Initial Purchasers are not obligated to make a market in the Notes and may discontinue their market-making activities at any time at their discretion without notice. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for securities and by changes in our financial performance or prospects of companies in our industry in general. As a result, we cannot assure you that an active trading market will develop or be maintained for the Notes. If a market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, the Notes may trade at prices that are higher or lower than the price at which the Notes have been issued. The price at which the Notes trade depends on many factors, including:

- prevailing interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and
- general economic conditions such as the recent downgrade of the long-term sovereign credit rating of the U.S. and the ongoing European debt crisis, almost all of which are beyond our control.

As a result, there can be no assurance that you will be able to resell the Notes at attractive prices or at all.

Holders of the Notes will not be entitled to registration rights, and we do not currently intend to register the Notes under applicable securities laws. There are restrictions on your ability to transfer or resell the Notes.

The Notes are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable securities laws, and we do not currently intend to register the Notes in any jurisdiction. The holders of the Notes will not be entitled to require the Issuer to register the Notes for resale or otherwise. Therefore, you may transfer or resell the Notes only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable securities laws of your jurisdiction and/or state, and you may be required to bear the risk of your investment for an indefinite period of time. See “Transfer Restrictions.”

The rating of the Notes may be lowered, suspended or withdrawn; changes in such credit rating may adversely affect the value of the Notes.

The Notes are expected to be assigned a rating of “A1” by Moody’s Investors Service, Inc. (“Moody’s”) and “A+” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc. (“S&P”). Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency’s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of your Notes and increase our corporate borrowing costs.

The Issuer may be deemed to be a PRC tax resident enterprise by the PRC tax authorities and certain PRC withholding taxes may be applicable to interest payments on the Notes and gains realized on disposition of the Notes may be subject to PRC tax.

The Issuer is incorporated under the laws of the British Virgin Islands. Pursuant to the Enterprise Income Tax Law of the PRC, (the “EIT Law”), effective as of January 1, 2008 and as further revised on February 24, 2017, and its implementation regulations, enterprises that are established under the laws of foreign countries and regions but whose “de facto management bodies” are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% on its income sourced from both within and outside the PRC.

Pursuant to the EIT Law and its implementation regulations, a non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment or place of business within the PRC generally must pay enterprise income tax at the rate of 10% or a lower rate if tax treaty benefits are available on its income sourced inside the PRC, and such income tax must be withheld by the PRC payor. In the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, interest paid on the Notes may be considered to be PRC source, in which case the Issuer would be required to withhold income tax at a rate of 10% from payments of interest in respect of the Notes to any non-PRC enterprise holders of the Notes. Any capital gain realized by a non-PRC enterprise from the transfer of the Notes may also be regarded as being derived from sources within the PRC and accordingly may be subject to a PRC tax of up to 10% if the Issuer is treated as a PRC tax resident enterprise. In accordance with the Individual Income Tax Law of the PRC which took effect on September 1, 2011 and its implementation regulations which took effect on September 1, 2011, if the Issuer is considered to be a PRC tax resident enterprise, interest payable to non-resident individual holders of the Notes may be treated as income derived from sources within the PRC and be subject to a 20% individual income tax; accordingly, the Issuer may be obliged to withhold such individual income tax on payments of interests to non-resident individual holders of the Notes. In addition, any capital gain realized by a non-resident individual holder from transfer of the Notes may be regarded as being derived from sources within the PRC and be subject to PRC tax of up to 20%. The rates of PRC tax on interest and capital gains may be reduced under an applicable income tax treaty. See "Taxation — PRC."

If the Issuer is required to withhold PRC tax on interest payable to non-resident holders of the Notes, the Issuer would be required, subject to certain exceptions, to pay such Additional Amounts as would result in receipt by a holder of a Note of such amounts as would have been received by such holder had no such withholding be required. The requirement to pay Additional Amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on the Issuer's ability to pay interest on, and repay the principal amount of, the Notes.

If the Issuer is not a PRC tax resident, non-resident holders of the Notes will not be subject to tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

The Issuer or the Guarantor may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event it is required to pay Additional Amounts in respect of (i) PRC income tax in excess of 10% or (ii) value-added tax and related surtaxes, if, in either case, the requirement to pay Additional Amounts results from certain changes in PRC tax law.

The Guarantor is a PRC "resident enterprise" and required to withhold PRC income tax on interest paid to certain non-resident investors, which would include interest payable in respect of the Notes pursuant to the Guarantee. In addition, if the Issuer is treated as a PRC "resident enterprise," the Issuer may be required to withhold PRC tax from interest paid to non-resident investors if the interest is treated as PRC source income. Moreover, there is uncertainty as to whether interest paid on the Notes might be subject to PRC value-added tax (currently at a rate of 6.72%) if the interest is paid under the Guarantee, or is paid by the Issuer and is treated as PRC source income.

As described under "Description of the Notes and Guarantees — Redemption — Optional Tax Redemption," in the event the Issuer (or the Guarantor) is required to pay Additional Amounts as a result of certain changes in or interpretations of tax law that result in it being required to withhold income tax at a rate in excess of 10% (the current PRC income tax rate applicable to non-resident enterprise holders) on interest payments as a result of the Issuer (or the Guarantor) being treated as a PRC "resident enterprise," the Issuer may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, if the Issuer or Guarantor is required to pay Additional Amounts with respect to PRC value-added tax and the requirement to pay such Additional Amounts results from a change in or interpretation of PRC tax law, the Issuer may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. See "Description of the Notes and Guarantees."

You may experience difficulties in effecting service of legal process and enforcing judgments against us, our directors, supervisors or senior management.

We are a company incorporated under the laws of the PRC and most of our assets and subsidiaries are located in China. All of our directors and senior management reside within the PRC. The assets of these directors and senior management also may be located within the PRC. As a result, it may not be possible to effect service of process upon most of our directors and senior management outside the PRC. Moreover, the PRC does not have treaties providing for reciprocal recognition and enforcement of court judgments in the United States, the United Kingdom, Japan or most other countries. As a result, in the PRC, recognition and enforcement of court judgments from the jurisdictions mentioned above may be difficult or impossible in relation to any matter that is not subject to a binding arbitration provision. See "Enforceability of Foreign Judgments and Civil Liabilities."

If we are unable to comply with the restrictions and covenants in our debt agreements, the indentures or the Indentures, there could be a default under the terms of these agreements, the indentures or the Indentures, which could cause the repayment of our debt to be accelerated.

We are subject to certain restrictions and covenants in our debt agreements and the indentures governing the existing senior notes. From time to time we have had to seek amendments, waivers and consents in connection with covenants and breaches under our debt facilities. Such amendments, waivers and consents have all been granted by the applicable creditors to date. There is no assurance that we will not need to seek such amendments, waivers or consents in the future.

If we are unable to comply with the restrictions and covenants in the indentures and the Indentures, or our current or future financing and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the relevant debt could terminate their commitments to lend to us, accelerate the debt obligation and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, certain debt agreements, including the Indentures, contain cross-acceleration or cross-default provisions. As a result, default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under other debt agreements, including the trust deeds relating to the Indentures. If any of these events should occur, there can be no assurance that our assets and cash flow would be sufficient to repay in full all indebtedness, or that alternative financing could be found. Even if alternative financing can be obtained, there can be no assurance that it would be on terms that are favorable or acceptable to us.

PRC corporate disclosure and accounting standards differ from U.S. GAAP.

We are a private company not listed on any stock exchange. There may be less publicly available information about us and our subsidiaries than is regularly made available by public companies in certain other countries, including the United States. In addition, our financial statements are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain respects from U.S. GAAP. See "Description of Certain Differences Between PRC GAAP and U.S. GAAP."

The Issuer and the Company will follow the applicable corporate disclosure standards for debt securities listed on the SEHK, which standards may be different from those applicable to companies in certain other countries.

The Issuer has received an eligibility letter from the SEHK for listing of and permission to deal in the Notes by way of debt issues to Professional Investors only. Upon the granting of the approvals by the SEHK, the Issuer will be subject to the applicable corporate disclosure standards for debt securities listed on the SEHK. The disclosure standards imposed by the SEHK may be different than those imposed by securities exchanges in other countries or regions such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

We may elect to redeem the Notes prior to their maturity.

Pursuant to terms of the Notes, we may elect to redeem the Notes prior to their maturity in whole or in part at the price specified in the section entitled "Description of the Notes and Guarantees — Redemption — Optional Redemption." The date on which we elect to redeem the Notes may not accord with the preference of particular noteholders. In addition, a noteholder may not be able to reinvest the redemption proceeds in comparable securities at the same rate of return of the Notes.

Also, as described under "Description of the Notes and Guarantees — Redemption — Optional Tax Redemption," in the event we are required to pay Additional Amounts with respect to any payment due or to become due under the Notes as a result of (i) any change in or amendment to the laws of a Relevant Jurisdiction (as defined herein) or any regulations or rulings promulgated thereunder affecting taxation, or (ii) any change in the official interpretation or official application of such laws, regulations or rulings, which change or amendment and such requirement cannot be avoided by the taking of reasonable measures by us, then subject to certain conditions, we may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest (including any Additional Amounts).

The Trustee may request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction.

Under certain circumstances, including without limitation giving notice to the Issuer upon an event of default and taking enforcement steps pursuant to the terms of the Indentures, the Trustee may, at its sole discretion, request noteholders to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of noteholders. The Trustee will not be obliged to take any such actions if not indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Indentures and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the noteholders to take such actions directly.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of June 30, 2018 and as adjusted to give effect to this offering. You should read this table in conjunction with our unaudited consolidated financial statements as of and for the six months ended June 30, 2018, and related notes included elsewhere in this offering memorandum.

	As of June 30, 2018			
	Actual		As Adjusted	
	(unaudited)		(unaudited)	
	RMB	US$	RMB	US$
	(in millions)			
Indebtedness [(1)]				
Indebtedness — due within one year.	214,125	32,359	214,125	32,359
Indebtedness — due after one year	263,917	39,884	263,917	39,884
			15,881	2,400
Notes offered hereby				
Total indebtedness	**478,042**	**72,243**	**493,923**	**74,643**
Owner's equity				
Paid-in capital	326,374	49,323	326,374	49,323
Capital reserve	94,615	14,299	94,615	14,299
Other comprehensive income	(19,915)	(3,010)	(19,915)	(3,010)
Specialized reserves	2,136	323	2,136	323
Surplus reserves	209,415	31,648	209,415	31,648
General risk reserve	1,460	221	1,460	221
Retained profit	162,130	24,502	162,130	24,502
Minority interest.	346,846	52,417	346,846	52,417
Total owners' equity	**1,123,061**	**169,721**	**1,123,061**	**169,721**
Total capitalization [(2)]	**1,601,103**	**241,964**	**1,616,984**	**244,364**

(1) Indebtedness does not include amounts due to our subsidiaries.

(2) Total capitalization equals total indebtedness plus total owners' equity.

On September 3, 2018, the Company announced the proposed issuance of domestic corporate bonds with an aggregate amount of up to RMB 5 billion. Completion of the issuance is expected to occur on September 6, 2018.

Except as disclosed herein, there have been no material changes in the Company's total capitalization since June 30, 2018.

DESCRIPTION OF THE ISSUER

Formation

The Issuer was incorporated with limited liability on August 30, 2018 in the British Virgin Islands under the BVI Business Companies Act. Its registered office is located at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands. The Issuer is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands. Both the Issuer and Sinopec Group Overseas Development Limited have elected to be treated as disregarded entities for U.S. federal income tax purposes.

Business Activity

Under the Issuer's memorandum of association, the Issuer has full capacity to carry on or undertake any business or activity, do any act or enter into any transaction that is not prohibited under any law for the time being in force in the British Virgin Islands. However, so long as the Notes are outstanding, the Issuer will limit its permitted activities as described under "Description of the Notes and Guarantees — Certain Covenants — Further Limitation on Issuer's Activities and Related Matters." The Issuer's primary purpose is to act as one of our financing subsidiaries to issue and hold the Notes. The Issuer has no material business nor assets and does not have any employees. In the future, the Issuer may, either itself or through direct and indirect subsidiaries and associated companies, issue further bonds and engage in other business activities related to us and may incur substantial liabilities and indebtedness.

Directors and Officers

The directors of the Issuer are Jiang Yongfu and Yu Qiming. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer. The business address of the directors is 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, PRC.

There are no potential conflicts of interest between any duties of any of the management of the Issuer or the Guarantor to the Issuer or the Guarantor, respectively, and their private interests and/or other duties.

Share Capital

The Issuer is authorized to issue up to a maximum of 50,000 ordinary shares of a single class of US$0.0002 each, all of which have been issued and are fully paid. No part of the equity securities of the Issuer is listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

Summary Financial Information of the Issuer

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to its incorporation, the authorization, execution and issue of the Notes, and the documents and matters referred to or contemplated in this offering memorandum to which the Issuer is or will be a party and matters which are incidental or ancillary to the foregoing.

Except as disclosed elsewhere in this offering memorandum, at the date of this offering memorandum, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unused), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

There are no other outstanding loans or subscriptions, allotments or options in respect of the Issuer.

The financial year of the Issuer runs from January 1 to December 31. There has been no material change in the activities of the Issuer since its incorporation.

The Issuer has not prepared any financial statements since its incorporation.

USE OF PROCEEDS

The net proceeds we expect to receive from this offering, after deducting underwriting commissions and certain estimated offering expenses, will be approximately US$2,384.56 million. We intend to use the net proceeds of this offering to refinance our existing indebtedness and for general corporate purposes.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering subject to the applicable PRC laws and regulations. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this offering memorandum subject to the applicable PRC laws and regulations.

OUR HISTORY AND CORPORATE STRUCTURE

Our History

Our predecessor was the former China Petrochemical Corporation ("Old Sinopec") founded in 1983 by the PRC State Council as a ministerial level enterprise. Old Sinopec was historically the dominant force in the refining and petrochemical industry in China. It was primarily responsible for the development and administration of the refining and petrochemical industry in China, including formulating industrial policies for the refining and petrochemical industry and supervising the construction and operation of refineries.

In December 1984, Old Sinopec set up a sales subsidiary, and became responsible for the administration of the marketing and distribution of refined oil products in China.

On July 25, 1998, the restructuring of the petroleum and petrochemical industry reorganized Old Sinopec into the Company, a large, vertically integrated petroleum and petrochemical enterprise with commercial operations concentrated in the eastern and southern regions of China.

On February 28, 2000, Sinopec Corp. was established as a joint stock company with limited liability under the Company Law of the PRC as part of a restructuring in which we transferred to Sinopec Corp. the majority of our production operations consisting of most of our petroleum and petrochemical operations, while retaining within Sinopec Group most of the social and ancillary services and certain production assets and retail service stations. As a result of the transfer, Sinopec Corp. conducts the following businesses:

- exploration for, development, production and marketing of crude oil and natural gas;
- refining of crude oil and the marketing and distribution of refined oil products, including the transportation, storage, trading, import and export of refined oil products; and
- production and sales of chemical products.

On October 18, 2000, the H shares and American Depositary Shares of Sinopec Corp. were simultaneously listed on the SEHK, the New York Stock Exchange and the London Stock Exchange.

In January 2001, we incorporated SIPC as an integrated strategic business unit to implement our overseas expansions in oil and gas exploration and production investments and operations.

On August 8, 2001, the A shares of Sinopec Corp. were successfully listed on the Shanghai Stock Exchange.

In May 2013, the H shares of Sinopec Engineering (Group) Co., Ltd. ("Sinopec Engineering"), a subsidiary of the Company, were successfully listed on the SEHK.

In May 2013, we incorporated Sinopec Catalyst Co. Ltd., one of our indirect wholly-owned subsidiaries and an investment platform for the production, marketing and management of catalysts.

By April 2014, Sinopec Corp. had injected its assets in the marketing and distribution segment into Sinopec Marketing, a wholly-owned subsidiary of Sinopec Corp. On September 12, 2014, Sinopec Marketing entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors agreed to subscribe for certain equity interest in Sinopec Marketing. As of March 6, 2015, the 25 investors had made an aggregate capital contribution of RMB 105.04 billion, representing 29.58% of the equity interest in Sinopec Marketing.

In July 2014, we incorporated Sinopec Lubricant Co. Ltd., one of our indirect wholly-owned subsidiaries, specializing in the research and development, production and marketing of lubricant products and services.

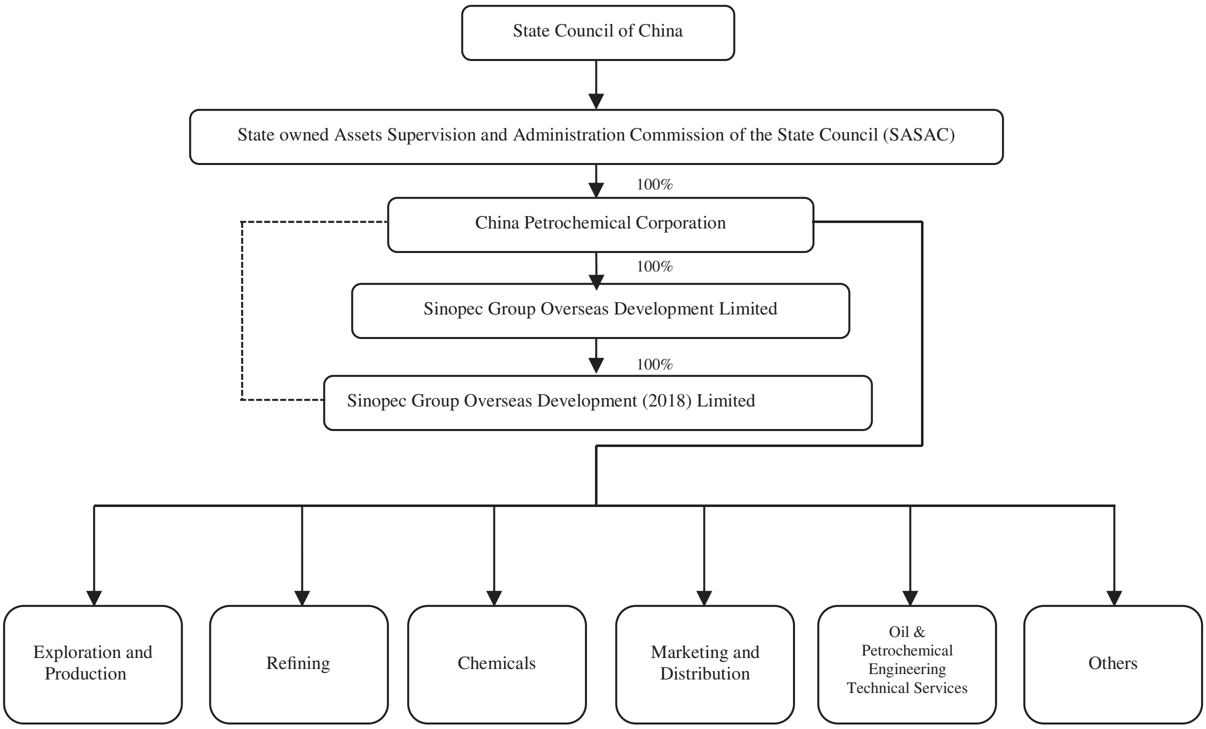
In December 2014, pursuant to a series of agreements entered into by the Company, Sinopec Corp. and Sinopec Yizheng Chemical Fibre Company Limited, a subsidiary of the Company whose A shares were listed on the Shanghai Stock Exchange and whose H shares were listed on the SEHK ("Yizheng"), Yizheng transferred all of its business to Sinopec Corp., and the Company injected its petroleum engineering business into Yizheng. In March 2015, Yizheng changed its name to Sinopec Oilfield Service Corporation.

In November 2015, pursuant to the SASAC's Special Coordination Meeting Minutes of Reorganization of Sinopec International Petroleum Exploration and Production Corporation (SASAC Special Coordination Meeting Minutes [2015] No.54, the "SASAC Meeting Minutes"), we entered into a restructuring plan (the "SIPC Restructuring") with two government asset management firms, China Chengtong Holdings Group Ltd. ("Chengtong Group") and China Reform Holdings Co., Ltd. ("CRHC"), to optimize SIPC's capital structure by increase of its share capital. In December 2015, each of Chengtong Group and CRHC, through its respective subsidiary, purchased 40% and 30% of SIPC's newly issued equity, respectively, for a consideration of RMB 6.7 billion and RMB 5 billion, respectively. Each of Chengtong Group, CRHC and us has the right to nominate three, two and two directors to the board of SIPC, respectively. Pursuant to the SASAC Meeting Minutes, Chengtong Group and CRHC borrowed the proceeds from Sinopec Asset Management Co., Ltd. As a result of the SIPC Restructuring, our equity interest in SIPC decreased from 100% to 30%. The day-to-day management and operation of SIPC has been handed over to its newly established board of directors while we continue to provide advice and guidance on SIPC's operations through the two directors appointed by us. The SIPC Restructuring was deemed to be effective as of January 1, 2015 and, consequently, the financial results of SIPC were not included in our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and our unaudited consolidated financial statements as of and for the six months ended June 30, 2017 and 2018.

In June 2017, the shareholders of Sinopec Corp. passed the resolutions in relation to the plan of overseas listing of Sinopec Marketing (the "Plan") at the annual general meeting for 2016. According to the Plan, Sinopec Marketing will carry out overseas listing of its shares (the "Overseas Listing") after its conversion into a joint stock limited liability company. Upon the completion of the Overseas Listing, Sinopec Corp. is expected to retain a majority shareholding in Sinopec Marketing and continue to consolidate the results of Sinopec Marketing in its financial statements. The Plan remains subject to the approvals by Sinopec Marketing's board of directors and shareholders, as well as the approvals by domestic and overseas regulatory authorities including, without limitation, SASAC and CSRC.

On August 20, 2018, the Administration Bureau of Industry & Commerce of Beijing registered the change of the corporate form of the Company from "an enterprise owned by the whole people" to a "wholly state-owned limited liability company". The same authority also registered a change of corporate name of the Company from "中國石油化工集團公司" to "中國石油化工集團有限公司", as well as the appointment of Mr. Dai Houliang as the legal representative of the Company. The registered capital of the Company was increased from RMB 274.87 billion to RMB 274.90 billion at the same time.

The following chart briefly illustrates the shareholding and group structure of the Company and the Issuer.



SELECTED FINANCIAL INFORMATION

Our selected historical consolidated income statement and cash flow statement data presented below for the years ended December 31, 2015, 2016 and 2017 and our selected historical consolidated balance sheet data as of December 31, 2015, 2016 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The audited financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

Our selected historical consolidated income statement and cash flow statement data presented below for the six months ended June 30, 2017 and 2018 and our selected historical consolidated balance sheet data as of June 30, 2018 have been derived from our unaudited interim consolidated financial statements included elsewhere in this offering memorandum. Our unaudited interim consolidated financial statements have been prepared on the same basis as our audited consolidated financial statements and include all normal and recurring adjustments that we consider necessary for a fair statement of our financial position and operating results for the periods presented except as permitted for interim financial statements.

Since the SIPC Restructuring was completed in December 2015 but was deemed effective as of January 1, 2015, for the purposes of preparing financial statements, our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and unaudited consolidated financial statements as of and for the six months ended as of June 30, 2017 and 2018 only recorded our equity interest in SIPC as a long term equity investment using the equity accounting method. See "Presentation of Information — Presentation of Data Relating to SIPC."

You should read the selected consolidated financial information in conjunction with our audited consolidated financial statements and related notes and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum. Our consolidated financial statements are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain material respects from U.S. GAAP. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences between PRC GAAP and U.S. GAAP." Our historical results do not necessarily indicate our results expected for any future period.

Selected Consolidated Income Statement Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2015	2016	2017	2017	2018	
				(unaudited)	(unaudited)	
	RMB	RMB	RMB	RMB	RMB	US$
			(in millions)			
Operating Revenues	**2,047,272**	**1,969,220**	**2,400,318**	**1,186,500**	**1,327,257**	**200,580**
Operating costs	1,598,236	1,528,840	1,920,377	957,509	1,070,501	161,778
Taxes and surcharges	241,696	237,978	239,627	118,278	121,169	18,311
Selling and distribution expenses	48,615	51,198	57,833	26,653	28,397	4,291
General and administrative expenses	75,744	77,905	81,778	33,883[1]	38,993[1]	5,893[1]
Exploration expenses	10,456	11,047	11,120	4,542	4,362	659
Financial expenses	13,111	8,402	4,183	3,221	1,157	175
Assets impairment losses	9,604	19,012	43,089	4,698	(35)[2]	(5)[2]
Operating Expenses	**1,997,462**	**1,934,382**	**2,358,007**	**1,148,784**	**1,264,544**	**191,102**
Gains (losses) from changes in fair value	729	(209)	(9)	369	(658)	(99)
Investment income	6,207	16,819	13,094	5,399	6,697	1,012
Gains from assets disposal (loss)	198	(1,183)	(2,222)	271	366	55
Other income	—	—	5,335	1,655	2,608	394
Operating Profit	**56,944**	**50,265**	**58,509**	**45,410**	**71,726**	**10,839**
Non-operating income	8,805	6,650	3,546	740	1,513	229
Non-operating expenses	3,627	4,011	3,850	1,359	1,403	212
Profit Before Income Tax	**62,122**	**52,904**	**58,205**	**44,791**	**71,836**	**10,856**
Income tax	18,028	24,705	19,245	10,396	16,238	2,454
Net Profit	**44,094**	**28,199**	**38,960**	**34,395**	**55,598**	**8,402**
Net profit attributable to parent company	22,591	8,357	10,393	19,116	32,936	4,977
Net profit attributable to minority interests	21,503	19,842	28,567	15,279	22,662	3,425

Notes:

(1) Include research and development expenses for the six months ended then.

(2) Include expected credit loss for the six months ended June 30, 2018.

Consolidated Balance Sheet Data of the Company

	As of December 31,			As of June 30,	
	2015	2016	2017	2018	
				(unaudited)	
	RMB	RMB	RMB	RMB	US$
			(in millions)		
Total current assets	551,464	659,965	795,418	880,411	133,051
Total non-current assets	1,507,042	1,499,426	1,461,280	1,415,195	213,869
Total assets	2,058,506	2,159,391	2,256,698	2,295,606	346,920
Total current liabilities	656,509	728,088	842,428	816,594	123,407
Total non-current liabilities	349,017	358,403	335,704	355,951	53,793
Total liabilities	1,005,526	1,086,491	1,178,132	1,172,545	177,199
Total owners' equity attributable to parent company	730,239	740,279	740,482	776,215	117,304
Minority interest	322,741	332,621	338,084	346,846	52,417
Total owners' equity	1,052,980	1,072,900	1,078,566	1,123,061	169,721
Total liabilities and owners' equity	2,058,506	2,159,391	2,256,698	2,295,606	346,920

Consolidated Cash Flows Data of the Company

	Year Ended December 31,			Six Months Ended June 30,		
	2015	2016	2017	2017	2018	
				(unaudited)	(unaudited)	
	RMB	RMB	RMB	RMB	RMB	US$
			(in millions)			
Net cash flows generated from (used in) operating activities	169,869	214,426	205,087	65,565	71,036	10,735
Net cash flows generated from (used in) investing activities	(209,008)	(100,967)	(148,303)	(45,263)	20,934	3,164
Net cash flows generated from (used in) financing activities	97,193	(43,784)	(23,120)	(13,864)	(33,908)	(5,124)
Effect of foreign exchange rate changes	1,094	722	(2,394)	(681)	629	95
Net increase (decrease) in cash and cash equivalents	59,148	70,397	31,270	5,757	58,691	8,870
Cash and cash equivalents at the beginning of the year	35,280	94,428	164,825	164,825	169,228	25,574
Cash and cash equivalents at the end of the year	94,428	164,825	196,095	170,582	227,919	34,444

Other Financial Data of the Company

	As of and for the Year Ended December 31,			As of and for the Six Months Ended June 30,
	2015	2016	2017	2018
				(unaudited)
EBITDA[1](RMB in millions)	178,067	185,054	225,767	127,173
EBITDA margin[2]	8.70%	9.40%	9.41%	9.58%
Total debt[3](RMB in millions)	484,810	494,862	483,245	478,042
Net debt[4](RMB in millions)	390,578	330,187	287,304	250,143
Total debt/EBITDA[5]	2.72	2.67	2.14	1.88
Net debt/EBITDA[5]	2.19	1.78	1.27	0.98
EBITDA/Interest[6]	20.62	18.73	23.98	26.28
Total debt/Total capitalization[7]	31.53%	31.56%	30.94%	29.86%
Cash/Short-term borrowings	46.47%	77.73%	86.31%	106.43%

(1) EBITDA for any period is calculated as operating profit adjusted investment income and gains (losses) from changes in fair value, plus assets impairment losses, interest expenses and depreciation, depletion and amortization. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.

(2) EBITDA margin is calculated as EBITDA divided by operating revenues.

(3) Total debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to our subsidiaries.

(4) Net debt is calculated as total debt minus cash.

(5) When calculating total debt/EBITDA and net debt/EBITDA for the six months ended June 30, 2018, the denominator is adjusted to two times of EBITDA for the six months ended June 30, 2018.

(6) Interest is calculated as interest expenses plus capitalized interests.

(7) Total capitalization equals total debt plus total owners' equity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial report and the related notes included elsewhere in this offering memorandum. The consolidated financial statements of the Company have been prepared in accordance with PRC GAAP. PRC GAAP differs in certain material respects from U.S. GAAP. For a summary of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences Between PRC GAAP and U.S. GAAP." The discussion in this section contains forward-looking statements that involve risks and uncertainties. The Company's actual results and timing of selected events could differ from those anticipated in these forward-looking statements as a result of various factors including those set forth under "Risk Factors" and elsewhere in this offering memorandum.

Overview

We are the largest integrated petroleum and petrochemical companies in China and one of the largest in the world in terms of revenue, according to the "2018 Fortune Global 500." We are the largest refined oil producer in the world in terms of crude oil throughput in 2017. We are the second largest oil and gas producer in China in terms of production volume in 2017. We are also the largest distributor of refined oil products in China measured by sales volume in 2017, and the number of our service stations ranked first in China and second in the world as of June 30, 2018. We ranked first in China in terms of production volume of major petrochemical products in 2017. We have been named in the "Fortune Global 500" since 2003 and ranked third in the "2018 Fortune Global 500" in terms of revenue. We principally engage in the exploration, development and production of crude oil and natural gas, the operation of refineries and petrochemical facilities and the marketing of crude oil, natural gas, refined oil products and chemical products. We have reported our consolidated financial results according to the following six principal business segments.

Exploration and Production Segment, which consists of exploring for, developing, producing and selling crude oil and natural gas;

Refining Segment, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing crude oil into refined oil products and selling refined oil products principally to our marketing and distribution segment;

Chemicals Segment, which consists of purchasing chemical feedstock principally from the refining segment and producing, marketing, selling and distributing chemical products;

Marketing and Distribution Segment, which consists of purchasing refined oil products from our refining segment and third parties, and marketing, selling and distributing refined oil products by wholesale to large customers and independent distributors and by retail through our retail network;

Oil & Petrochemical Engineering Technical Services Segment, which consists of providing a range of oilfield services including geophysical exploration, drilling, well logging, mud logging and downhole operations under various geologic and engineering conditions as well as designing and constructing large-scale refining and petrochemical projects; and

Others Segment, which consists principally of international trade, research and development as well as other businesses, which are collectively referred to as our "Others" segment.

Factors Affecting Results of Operations

Our results of operations are primarily affected by the following factors:

SIPC Restructuring

In December 2015, we completed the SIPC Restructuring pursuant to SASAC's Special Coordination Meeting Minutes of Reorganization of Sinopec International Petroleum Exploration and Production Corporation (SASAC Special Coordination Meeting Minutes [2015] No.54). As a result of the SIPC Restructuring which was deemed to be effective as of January 1, 2015, we did not consolidate the financial results of SIPC as a subsidiary for the purposes of our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and our unaudited consolidated financial statements as of and for the six months ended June 30, 2017 and 2018. Our 30% equity interest in SIPC was accounted for using the equity method in accordance with PRC GAAP.

Macroeconomic Environment

Changes in the macroeconomic environment have affected and will continue to affect our business and operations. The recent global recession and the more moderate economic growth in China may lower oil and gas demand and adversely affect us. As the oil and gas industry is sensitive to macroeconomic trends and oil and gas prices tend to fall in recessionary periods, we may experience pricing pressure on our refined oil products, which may adversely affect profitability. The financial and economic situation may also have a negative impact on third parties with whom we do, or may do, business. Any of these factors may affect our financial condition and results of operations.

Commodity and Product Prices

Crude oil and natural gas prices

Our results of operations are substantially affected by crude oil and natural gas prices. We produce and purchase crude oil and natural gas for our internal use in refining and chemical productions as well as for sale to external customers. Changes in the prices of crude oil and natural gas in China may have a significant effect on, among other things, (i) the revenue from our exploration and production segment and our oil and gas trading business and (ii) the costs of our refining segment, chemical segment and our oil and gas trading business. Crude oil and natural gas prices are subject to fluctuations due to market uncertainty and various other factors that are beyond our control, including, but not limited to, government controls, overall economic conditions, supply and demand dynamics for crude oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources, as well as weather conditions.

In addition, our typical contracts with natural gas buyers include provisions for price adjustments which may result in selling price fluctuations. In addition to directly affecting our revenues and profits, declines in crude oil and/or natural gas prices may also result in the write-off of higher cost reserves and other assets.

Prices of refined oil products and chemical products

Our refining segment and marketing and distribution segment engage in the sales to third parties of refined oil products (mainly gasoline, diesel and kerosene (including jet fuel)). Our chemicals segment engages in the sales of chemical products. Our results of operations are significantly affected by the prices of refined oil products and chemical products.

Beginning from December 2008, the PRC government has set upper limits for the retail prices of various refined oil products. We determine the prices of other refined oil products with reference to the published median guidance prices of gasoline and diesel. The government regulation of refined oil product prices has a material impact on our results of operations.

Production, Sales Volumes and Product Mix

Our results of operations are also affected by production and sales volumes as well as our product mix. Our crude oil and natural gas production volumes depend primarily on the level of our reserve base, the development plan regarding the reserve base, as well as other factors. The production volumes of our refining and chemicals segments depend primarily on the capacities and utilization of our refining and chemical facilities, as well as market conditions. We produce and sell different mixes of crude oil and natural gas, each having different market prices, as well as a variety of refined oil and chemical products. Therefore, in any given period, our product mix is subject to change, which will also affect our results of operations.

Regulatory Environment

Our operating activities are subject to extensive regulations and controls by the PRC government, including the issuance of exploration and production licenses, the imposition of industry-specific taxes and levies and the implementation of environmental policies and safety standards. Our results of operations will be affected by any future changes of such regulatory environment.

We are subject to various taxes, fees and royalties. Changes in tax rules and regulations applicable to us may affect our results of operations. For example, since March 26, 2006, we have been subject to a crude oil special levy on the sale of domestic oil imposed by the PRC government. Prior to November 1, 2011, the special levy of 20%-40% became applicable if the sales price of domestic oil reached US$40 per barrel. Effective from November 1, 2011, the sales price triggering the special levy was increased to US$55 per barrel. Effective from January 1, 2015, the sales price triggering the special levy was increased to US$65 per barrel. In addition, a resource tax regulation became effective on June 1, 2010, and has been applicable across China generally since November 1, 2011. Under this regulation, the resource tax payable by taxpayers in connection with their extraction of crude oil and natural gas will be collected based on value instead of volume. Effective from December 1, 2014, the rate of mineral resource compensation charges on crude oil and natural gas is reduced to zero, and the applicable resource tax rate is correspondingly increased from 5% to 6%. The amount of crude oil special levy and resource tax we pay have significantly affected our results of operations. See "Summary of Relevant PRC Laws and Regulations — Regulation of Crude Oil and Refined Oil Products Market — Taxation, Fees and Royalties" for a more detailed description of current PRC taxation, fees and royalties payable by us. Driven by environmental and efficiency concerns, the PRC government has been increasingly encouraging industrial and residential use of natural gas to meet primary energy and environmental protection needs.

In addition, the China National Energy Administration released the first Shale Gas Industry Policy on October 22, 2013 to call for more financial support from the government for shale gas development and exploration. In particular, subsidies should be given directly to a shale gas production company according to the amount of its shale gas development and utilization, provided that certain conditions are met. Local governments are also encouraged to provide subsidies, with the amount to be determined by local financial authorities. The policy also calls for waive or reduction of compensatory fee for mineral resources and royalty fee, as well as new incentive policies for value-added tax, resources tax, enterprise income tax, and customs duties for imports of production equipment. In April 2015, to facilitate the development of the shale gas industry, the Ministry of Finance of China and the China National Energy Administration issued the Notice on Fiscal Subsidies for Shale Gas Development and Utilization (No. 112 [2015] of the Ministry of Finance) to further implement the policy of fiscally subsidizing the shale gas industry during the period of the thirteenth "five-year" plan. The subsidy will be RMB 0.3 per cubic meter of shale gas produced and RMB 0.2 per cubic meter of shale gas produced from 2016 to 2018 and from 2019 to 2020, respectively.

Competition

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. Since 2007, the PRC government gradually opened the wholesale market of crude oil and refined oil products to new market entrants including local refineries. As a result, we face more competition in both crude oil and refined oil product markets. We also expect to face competition in both domestic and international petrochemical product markets as a result of our domestic and international competitors' increasing production capacity. Increased competition may have an adverse effect on our financial condition and results of operations.

Critical Accounting Policies, Judgments and Estimates

Our reported consolidated financial condition and consolidated results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an ongoing basis, our management evaluates these estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments 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 our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Oil and Gas Properties and Reserves

The accounting for our upstream oil and gas activities is subject to special accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. We have 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 capitalized and written-off (depreciated) over time.

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments 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.

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 capitalized as oil and gas properties with equivalent amounts recognized as provision 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, and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired.

Impairment for Long-lived Assets

If circumstances indicate that the net book value of a long-lived asset, including oil and gas properties, may not be recoverable, the asset may be "impaired," and an impairment loss may be recognized. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. For goodwill, the recoverable amount is estimated annually. 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 our 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 judgment relating to level of sales volume, selling price and amount of operating costs. We use 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 reserve quantities, sales volume, selling price and amount of operating costs.

Impairment losses recognized for the periods presented in our statement of income on long-lived assets are summarized as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
				(unaudited)	(unaudited)
			(RMB in millions)		
Long-term equity investment impairment loss	657	1	936	—	—
Fixed assets impairment loss	165	4,499	14,565	439	116
Oil and gas assets impairment loss	4,209	10,588	8,875	3,522	—
Intangible assets impairment loss	7	10	19	1	—
Construction supplies impairment loss	—	—	—	—	—
Construction in progress impairment loss	118	1,487	252	—	—
Total impairment loss on long-lived assets	5,156	16,585	24,647	3,962	116

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. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our 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. There have been no significant changes to the estimated useful lives and residual values during each of the three years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2017 and 2018.

Impairment of Accounts Receivable for Bad and Doubtful Debts

We estimate impairment of accounts receivable for bad and doubtful debts resulting from the inability of our customers to make the required payments. We base our estimates on the aging of our accounts receivable balance, customer creditworthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs would be higher than estimated. The changes in the impairment losses for bad and doubtful accounts are as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
				(unaudited)	(unaudited)
			(RMB in millions)		
Impairment losses for bad and doubtful accounts	560	1,651	1,552	467	(224)

Allowance for Diminution in Value of Inventories

If the net realizable values of inventories fall below their costs, an allowance for diminution in value of inventories is recognized. Net realizable 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. We base 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.

Allowance for diminution in value of inventories is analyzed as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
				(unaudited)	(unaudited)
			(RMB in millions)		
Allowance for diminution in value of inventories	3,766	589	16,654	203	9

Results of Operations of the Company

The following table sets forth, for the periods indicated, our consolidated results of operations.

	Year Ended December 31,			Six Months Ended June 30,		
	2015	2016	2017	2017	2018	
				(unaudited)	(unaudited)	
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
Operating Revenues	**2,047,272**	**1,969,220**	**2,400,318**	**1,186,500**	**1,327,257**	**200,580**
Operating costs	1,598,236	1,528,840	1,920,377	957,509	1,070,501	161,778
Taxes and surcharges	241,696	237,978	239,627	118,278	121,169	18,311
Selling and distribution expenses	48,615	51,198	57,833	26,653	28,397	4,291
General and administrative expenses	75,744	77,905	81,778	33,883[1]	38,993[1]	5,893[1]
Exploration expenses	10,456	11,047	11,120	4,542	4,362	659
Financial expenses	13,111	8,402	4,183	3,221	1,157	175
Assets impairment losses	9,604	19,012	43,089	4,698	(35)[2]	(5)[2]
Operating Expenses	**1,997,462**	**1,934,382**	**2,358,007**	**1,148,784**	**1,264,544**	**191,102**
Gains (losses) from changes in fair value	729	(209)	(9)	369	(658)	(99)
Investment income	6,207	16,819	13,094	5,399	6,697	1,012
Gains from assets disposal (loss)	198	(1,183)	(2,222)	271	366	55
Other income	—	—	5,335	1,655	2,608	394
Operating Profit	**56,944**	**50,265**	**58,509**	**45,410**	**71,726**	**10,839**
Non-operating income	8,805	6,650	3,546	740	1,513	229
Non-operating expenses	3,627	4,011	3,850	1,359	1,403	212
Profit Before Income Tax	**62,122**	**52,904**	**58,205**	**44,791**	**71,836**	**10,856**
Income tax	18,028	24,705	19,245	10,396	16,238	2,454
Net Profit	**44,094**	**28,199**	**38,960**	**34,395**	**55,598**	**8,402**
Net profit attributable to parent company	22,591	8,357	10,393	19,116	32,936	4,977
Net profit attributable to minority interests	21,503	19,842	28,567	15,279	22,662	3,425

Notes:

(1) Include research and development expenses for the six months ended then.

(2) Include expected credit loss for the six months ended June 30, 2018.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Operating revenues

Operating revenues increased by 11.9% from RMB 1,186,500 million for the six months ended June 30, 2017 to RMB 1,327,257 million for the six months ended June 30, 2018. All of our business segments experienced an increase in operating revenues in the six months ended June 30.

2018. This increase was mainly attributable to the increase of international crude oil prices as well as the Company's efforts in leveraging our advantages in distribution network, implementing targeted marketing, coordinating internal and external resources and expanding the market in the market competition.

The increase in sales revenue realized by our exploration and production segment was mainly due to the increase of crude oil and natural gas prices as well as increased sales volume of crude oil and natural gas over the same period of 2017. Our average realized price of crude oil and natural gas increased from RMB 2,357 per tonne and RMB 1,270 per thousand cubic meters in the six months ended June 30, 2017 to RMB 2,880 per tonne and RMB 1,362 per thousand cubic meters in the six months ended June 30, 2018. Our sales volume of crude oil and natural gas increased from 3.3 million tonnes and 11,554 million cubic meters in the six months ended June 30, 2017 respectively to 3.6 million tonnes and 11,799 million cubic meters in the six months ended June 30, 2018 respectively.

The increase in sales revenue realized by our marketing and distribution segment, which sells refined oil products externally, was mainly due to the increased prices of refined oil products, and the high utilization rate maintained by the Company by proactively confronting with the over-supplied market. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) increased from RMB 6,966 per tonne, RMB 4,889 per tonne and RMB 3,547 per tonne in the six months ended June 30, 2017 to RMB 7,635 per tonne, RMB 5,701 per tonne and RMB 4,220 per tonne, respectively, in the six months ended June 30, 2018. Our aggregate sales volumes of gasoline increased from 41,400 thousand tonnes in the six months ended June 30, 2017 to 43,623 thousand tonnes in the six months ended June 30, 2018, while our aggregate sales volumes of diesel and kerosene (including jet fuel) decreased from 44,951 thousand tonnes and 12,748 thousand tonnes in the six months ended June 30, 2017, respectively, to 39,749 thousand tonnes and 12,071 thousand tonnes in the six months ended June 30, 2018, respectively.

The increase in sales revenue of our chemicals segment was mainly due to the increased sales volume and prices of most petrochemical products year on year as the Company seized market opportunities to expand market, promote sales and optimize structure.

The increase in sales revenue of our engineering segment was mainly due to the increase of revenue of refining and chemical engineering technical services as a result of the fact that large EPC contracting projects entered peak execution period or startup period, as well as the increase of revenue of oil engineering technical services as a result of a significant year-on-year increase in the volume of work in connection with major specialized tasks with a rebound in international oil prices.

The increase in the sales revenue of our others segment was mainly attributable to the increase of international oil prices and refined oil product trading volume.

Operating costs

Operating costs increased by 11.8% from RMB 957,509 million for the six months ended June 30, 2017 to RMB 1,070,501 million for the six months ended June 30, 2018. This increase was primarily due to the increase of crude oil prices and relevant petroleum and petrochemical products prices.

Taxes and surcharges

Taxes and surcharges increased by 2.4% from RMB 118,278 million for the six months ended June 30, 2017 to RMB 121,169 million for the six months ended June 30, 2018.

Selling and distribution expenses

Selling expenses increased by 6.5% from RMB 26,653 million for the six months ended June 30, 2017 to RMB 28,397 million for the six months ended June 30, 2018, primarily as a result of the increases in sales personnel compensation and higher sales volume which in turn generate a rise in freight and miscellaneous fee.

General and administrative expenses

General and administrative expenses increased by 11.5% from RMB 30,633 million for the six months ended June 30, 2017 to RMB 34,155 million for the six months ended June 30, 2018, primarily due to the increases in personnel compensation.

Research and development expenses

Research and development expenses increased by 48.9% from RMB 3,250 million for the six months ended June 30, 2017 to RMB 4,838 million for the six months ended June 30, 2018, primarily due to increased input in research and development activities.

Exploration expenses

Exploration expenses decreased by 4.0% from RMB 4,542 million for the six months ended June 30, 2017 to RMB 4,362 million for the six months ended June 30, 2018, mainly due to the Company's constant strengthening of exploration investment control to increase success rate of exploration operation.

Financial expenses

Financial expenses decreased by 64.1% from RMB 3,221 million for the six months ended June 30, 2017 to RMB 1,157 million for the six months ended June 30, 2018, primarily due to the Company's enhanced cash flow management and increased cash at bank and on hand. The Company also gained interest income by cash management and optimized debt structure by replacing loans with favorable rates to decrease finance cost.

Assets impairment losses

Our loss from assets impairment was RMB 4,698 million for the six months ended June 30, 2017, as compared to a gain from assets impairment of RMB 35 million for the six months ended June 30, 2018, primarily due to the decrease of oil and gas related asset impairment losses resulting from a rebound in international oil prices.

Other income

Other income increased by 57.6% from RMB 1,655 million for the six months ended June 30, 2017 to RMB 2,608 million for the six months ended June 30, 2018, primarily due to an increase in government grants and subsidies relating to our daily business activities.

Investment income

Investment income increased by 24.0% from RMB 5,399 million for the six months ended June 30, 2017 to RMB 6,697 million for the six months ended June 30, 2018, primarily due to the increase in profits generated by our joint ventures and associated enterprises.

Gain from changes in fair value

Our loss from changes in fair value was RMB 658 million for the six months ended June 30, 2018, as compared to a gain from changes in fair value of RMB 369 million for the six months ended June 30, 2017.

Gain from assets disposal

Gains from assets disposal increased by 35.1% from RMB 271 million for the six months ended June 30, 2017 to RMB 366 million for the six months ended June 30, 2018.

Operating profit

As a result of the foregoing, operating profit increased by 58.0% from RMB 45,410 million for the six months ended June 30, 2017 to RMB 71,726 million for the six months ended June 30, 2018.

Non-operating income

Non-operating income increased by 104.5% from RMB 740 million for the six months ended June 30, 2017 to RMB 1,513 million for the six months ended June 30, 2018, primarily due to the increase of government grants related to our handing over of certain social and utilities functions to the government.

Non-operating expenses

Non-operating expenses increased by 3.2% from RMB 1,359 million for the six months ended June 30, 2017 to RMB 1,403 million for the six months ended June 30, 2018.

Income tax

Income tax increased by 56.2% from RMB 10,396 million for the six months ended June 30, 2017 to RMB 16,238 million for the six months ended June 30, 2018, primarily due to the increase in taxable income.

Net profit

As a result of the foregoing, net profit increased by 61.6% from RMB 34,395 million for the six months ended June 30, 2017 to RMB 55,598 million for the six months ended June 30, 2018.

Net profit attributable to minority interests

Net profit attributable to minority interests increased by 48.3% from RMB 15,279 million for the six months ended June 30, 2017 to RMB 22,662 million for the six months ended June 30, 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Operating revenues

Operating revenues increased by 21.9% from RMB 1,969,220 million for the year ended December 31, 2016 to RMB 2,400,318 million for the year ended December 31, 2017. All of our business segments experienced an increase in operating revenues in 2017. This increase was mainly attributable to the increase in crude oil prices and the increase of prices and sales volume of main petroleum and petrochemical products in 2017.

The increase in sales revenue realized by our exploration and production segment was mainly due to the rise of realized price of crude oil and the increased sales volume of natural gas. Our average realized prices of crude oil and natural gas increased from RMB 1,628 per tonne and RMB1,258 per thousand cubic meters in 2016 to RMB 2,390 per tonne and RMB1,290 per thousand cubic meters in 2017. Our sales volume of natural gas increased by 18.5% from 19,008 million cubic meters in 2016 to 22,529 million cubic meters in 2017, while the sales volume of crude oil decreased by 3.5% from 6.8 million tonnes in 2016 to 6.6 million tonnes in 2017.

The increase in sales revenue realized by our marketing and distribution segment, which sells refined oil products externally, was mainly due to the increase in prices of various refined oil products. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) increased from RMB 6,386 per tonne, RMB 4,482 per tonne and RMB 2,807 per tonne in 2016 to RMB 6,941 per tonne, RMB 5,038 per tonne and RMB 3,531 per tonne in 2017, respectively. Our aggregate sales volumes of gasoline and kerosene (including jet fuel) increased from 77,480 thousand tonnes and 25,164 thousand tonnes in 2016, respectively, to 83,933 thousand tonnes and 25,557 thousand tonnes in 2017, while the sales volume of diesel decreased from 91,492 thousand tonnes in 2016 to 88,848 thousand tonnes in 2017.

The increase in sales revenue of our chemicals segment was mainly due to the increase in the price and sales volume of chemical products.

The increase in sales revenue of our engineering segment was mainly due to the increase of revenue of oil engineering technical services, partially offset by the decrease of revenue of refining and chemical engineering technical services.

The increase in the sales revenue of our others segment was mainly attributable to the increase in international crude oil prices as well as increased crude oil trading volume as compared with 2016.

Operating costs

Operating costs increased by 25.6% from RMB 1,528,840 million for the year ended December 31, 2016 to RMB 1,920,377 million for the year ended December 31, 2017. This increase was primarily due to the increase of crude oil prices and relevant petroleum and petrochemical products prices and trading volume.

Taxes and surcharges

Taxes and surcharges increased by 0.7% from RMB 237,978 million for the year ended December 31, 2016 to RMB 239,627 million for the year ended December 31, 2017.

Selling and distribution expenses

Selling expenses increased by 13.0% from RMB 51,198 million for the year ended December 31, 2016 to RMB 57,833 million for the year ended December 31, 2017, primarily as a result of the increases in sales personnel compensation and outsourcing expenses.

General and administrative expenses

General and administrative expenses increased by 5.0% from RMB 77,905 million for the year ended December 31, 2016 to RMB 81,778 million for the year ended December 31, 2017.

Exploration expenses

Exploration expenses increased by 0.7% from RMB 11,047 million for the year ended December 31, 2016 to RMB 11,120 million for the year ended December 31, 2017.

Financial expenses

Financial expenses decreased by 50.2% from RMB 8,402 million for the year ended December 31, 2016 to RMB 4,183 million for the year ended December 31, 2017, primarily due to the increase in interest income and decrease in foreign exchange net loss.

Assets impairment losses

Assets impairment losses increased by 126.6% from RMB 19,012 million for the year ended December 31, 2016 to RMB 43,089 million for the year ended December 31, 2017 due to the increase of allowance for diminution in value of inventories and fixed assets impairment loss.

Gain from changes in fair value

Our loss from changes in fair value was RMB 9 million for the year ended December 31, 2017, as compared to a loss from changes in fair value of RMB 209 million for the year ended December 31, 2016.

Investment income

Investment income decreased by 22.1% from RMB 16,819 million for the year ended December 31, 2016 to RMB 13,094 million for the year ended December 31, 2017, primarily due to the fact that the reorganization of and capital injection in Sichuan to East China Pipeline Co., Ltd., which contributed substantially to the Company's investment income, occurred and was accounted for in 2016.

Operating profit

As a result of the foregoing, operating profit increased by 16.4% from RMB 50,265 million for the year ended December 31, 2016 to RMB 58,509 million for the year ended December 31, 2017.

Non-operating income

Non-operating income decreased by 46.7% from RMB 6,650 million for the year ended December 31, 2016 to RMB 3,546 million for the year ended December 31, 2017 due to the re-categorization of government grants and subsidies relating to our daily business activities as "other income".[1]

Non-operating expenses

Non-operating expenses decreased by 4.0% from RMB 4,011 million for the year ended December 31, 2016 to RMB 3,850 million for the year ended December 31, 2017.

Income tax

Income tax decreased by 22.1% from RMB 24,705 million for the year ended December 31, 2016 to RMB 19,245 million for the year ended December 31, 2017, primarily due to the impact of deferred income tax.

Net profit

As a result of the foregoing, net profit increased by 38.2% from RMB 28,199 million for the year ended December 31, 2016 to RMB 38,960 million for the year ended December 31, 2017.

Net profit attributable to minority interests

Net profit attributable to minority interest increased by 44.0% from RMB 19,842 million for the year ended December 31, 2016 to RMB 28,567 million for the year ended December 31, 2017.

Share of Profits/Loss from associates

Net loss attributable to SIPC was RMB 7,372 million for the year ended December 31, 2017; net profit attributable to SIBUR was RMB 960 million for the year ended December 31, 2017; net profit attributable to Sinopec Sichuan-to-East China Natural Gas Pipeline Co., Ltd was RMB 1,272 million for the year ended December 31, 2017; and net loss attributable to Caspian Investments Resources Ltd. was RMB 305 million for the year ended December 31, 2017.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Operating revenues

Operating revenues decreased by 3.8% from RMB 2,047,272 million for the year ended December 31, 2015 to RMB 1,969,220 million for the year ended December 31, 2016. Other than the chemicals segment, all of our business segments experienced a decline in operating revenues in 2016. This decrease was mainly attributable to the persistently low oil price and decrease in sales prices of refined oil products and chemical products as compared to 2015.

[1] For a description of "other income", please see Note IV. 27 to the Auditor's Report included in this offering memorandum.

The decrease in sales revenue realized by our exploration and production segment was mainly due to the continued decline in crude oil prices and sales volume. Our average realized prices of crude oil and natural gas decreased from RMB 2,019 per tonne and RMB1,519 per thousand cubic meters in 2015 to RMB 1,628 per tonne and RMB 1,258 per thousand cubic meters in 2016. Our sales volume of natural gas increased from 18,440 million cubic meters in 2015 to 19,008 million cubic meters in 2016, while the sales volume of crude oil decreased from 9.7 million tonnes in 2015 to 6.8 million tonnes in 2017.

The decrease in sales revenue realized by our marketing and distribution segment, which sells refined oil products externally, was mainly due to the decline in prices of various refined oil products. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) decreased from RMB 6,749 per tonne, RMB 4,937 per tonne and RMB 3,387 per tonne in 2015 to RMB 6,386 per tonne, RMB 4,482 per tonne and RMB 2,807 per tonne in 2016, respectively. Our aggregate sales volumes of gasoline and kerosene (including jet fuel) increased from 69,749 thousand tonnes and 23,028 thousand tonnes in 2015, respectively, to 77,480 thousand tonnes and 25,164 thousand tonnes in 2016, while the sales volume of diesel decreased from 95,472 thousand tonnes in 2015 to 91,492 thousand tonnes in 2016.

The increase in sales revenue of our chemicals segment was mainly due to the increase in sales volume of chemical products.

The decrease in sales revenue of our engineering segment was mainly due to the decrease in number and service rate of engineering technical service contracts as a result of low crude oil prices.

The decrease in the sales revenue of our others segment was mainly attributable to decreased trading income caused by a decline in the prices of crude oil and refined oil products.

Operating costs

Operating costs decreased by 4.3% from RMB 1,598,236 million for the year ended December 31, 2015 to RMB 1,528,840 million for the year ended December 31, 2016. This decrease was primarily due to the decline in prices of crude oil and feedstock purchased from external sources and improved cost control.

Taxes and surcharges

Taxes and surcharges decreased by 1.5% from RMB 241,696 million for the year ended December 31, 2015 to RMB 237,978 million for the year ended December 31, 2016, primarily as a result of a decrease in the consumption tax paid by the Company from RMB 197,491 million for the year ended December 31, 2015 to RMB 192,007 million for the year ended December 31, 2016 and a decrease in the resource tax paid by the Company from RMB 4,940 million for the year ended December 31, 2015 to RMB 3,954 million for the year ended December 31, 2016. The decrease in the consumption tax paid was primarily due to a decline in our diesel production, and the decrease in the resource tax was mainly due to a decline in oil price.

Selling and distribution expenses

Selling expenses increased by 5.3% from RMB 48,615 million for the year ended December 31, 2015 to RMB 51,198 million for the year ended December 31, 2016.

General and administrative expenses

General and administrative expenses increased by 2.9% from RMB 75,744 million for the year ended December 31, 2015 to RMB 77,905 million for the year ended December 31, 2016.

Exploration expenses

Exploration expenses increased by 5.7% from RMB 10,456 million for the year ended December 31, 2015 to RMB 11,047 million for the year ended December 31, 2016.

Financial expenses

Financial expenses decreased by 35.9% from RMB 13,111 million for the year ended December 31, 2015 to RMB 8,402 million for the year ended December 31, 2016, primarily due to a decrease in the foreign exchange net loss from RMB 7,241 million in 2015 to RMB 1,432 million in 2016, which was partially offset by an increase in interest expenses from RMB 7,410 million for the year ended December 31, 2015 to RMB 9,021 million for the year ended December 31, 2016.

Assets impairment losses

Assets impairment losses increased by 98.0% from RMB 9,604 million for the year ended December 31, 2015 to RMB 19,012 million for the year ended December 31, 2016 due to the impact of a lower price environment in the near term, technical reserves revisions and decommissioning of certain inefficient projects.

Gain from changes in fair value

Our loss from changes in fair value was RMB 209 million for the year ended December 31, 2016, as compared to a gain from changes in fair value of RMB 729 million for the year ended December 31, 2015, primarily due to a decline in the gain on derivative financial instruments from RMB 282 million for the year ended December 31, 2015 to RMB 152 million for the year ended December 31, 2016 and the change from a gain of RMB 439 million from hedging instruments for the year ended December 31, 2015 to a loss of RMB 301 million from hedging instruments for the year ended December 31, 2016.

Investment income

Investment income increased by 171.0% from RMB 6,207 million for the year ended December 31, 2015 to RMB 16,819 million for the year ended December 31, 2016, primarily due to the reorganization of and capital injection in Sichuan-to-East China Pipeline Co., Ltd. ("Sichuan Pipeline Company").

Operating profit

As a result of the foregoing, operating profit decreased by 11.7% from RMB 56,994 million for the year ended December 31, 2015 to RMB 50,265 million for the year ended December 31, 2016.

Non-operating income

Non-operating income decreased by 24.5% from RMB 8,805 million for the year ended December 31, 2015 to RMB 6,650 million for the year ended December 31, 2016 due to a decline in write-off of accounts payable.

Non-operating expenses

Non-operating expenses increased by 10.6% from RMB 3,627 million for the year ended December 31, 2015 to RMB 4,011 million for the year ended December 31, 2016.

Income tax

Income tax increased by 37.0% from RMB 18,028 million for the year ended December 31, 2015 to RMB 24,705 million for the year ended December 31, 2016, primarily due to the increased taxable income from certain of our subsidiaries in the downstream businesses.

Net profit

As a result of the foregoing, net profit decreased by 36.0% from RMB 44,094 million for the year ended December 31, 2015 to RMB 28,199 million for the year ended December 31, 2016.

Net profit attributable to minority interests

Net profit attributable to minority interest decreased by 7.7% from RMB 21,503 million for the year ended December 31, 2015 to RMB 19,842 million for the year ended December 31, 2016.

Share of Profits/Loss from associates

Net loss attributable to SIPC was RMB 15,098 million for the year ended December 31, 2016; net profit attributable to China Merchants Energy Shipping was RMB 231 million for the year ended December 31, 2016; net profit attributable to China National Aviation Fuel was RMB 959 million for the year ended December 31, 2016; and net loss attributable to Caspian Investments Resources Ltd. was RMB 1,759 million for the year ended December 31, 2016.

Segment Information

The following table sets forth our operating revenues, operating expenses and operating profits by business segment for the periods presented.

	Year Ended December 31,			Six Months Ended June 30,		
	2015	2016	2017	2017	2018	
				(unaudited)	(unaudited)	(unaudited)
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
Total Operating Revenues:						
Exploration and Production	138,653	115,939	157,504	74,109	87,925	13,288
Refining	926,616	855,786	1,011,853	488,172	593,327	89,666
Chemicals	362,875	367,197	474,471	225,328	276,229	41,745
Marketing and Distribution	1,106,667	1,052,857	1,224,198	605,960	668,325	101,000
Oil & Petrochemical Engineering Technical Services	111,731	87,539	89,328	35,138	43,996	6,649
Others	862,008	830,463	1,079,566	536,506	639,519	96,646
Elimination of inter-segment	(1,461,278)	(1,340,561)	(1,636,602)	(778,713)	(982,064)	(148,413)
Total	2,047,272	1,969,220	2,400,318	1,186,500	1,327,257	200,580
Total Operating Expenses:						
Exploration and Production	162,438	179,838	209,240	95,205	91,317	13,800
Refining	909,649	800,459	948,179	458,695	555,211	83,905
Chemicals	346,823	350,087	453,474	214,442	266,326	40,248
Marketing and Distribution	1,078,391	1,020,294	1,191,026	589,501	650,184	98,258
Oil & Petrochemical Engineering Technical Services	107,922	102,367	98,925	36,750	43,031	6,503
Others	857,431	822,083	1,091,873	530,117	640,295	96,764
Elimination of inter-segment	(1,465,192)	(1,340,746)	(1,634,710)	(775,926)	(981,820)	(148,376)
Total	1,997,462	1,934,382	2,358,007	1,148,784	1,264,544	191,102
Total Operating Profit/(Loss):						
Exploration and Production	(23,110)	(44,618)	(48,629)	(20,173)	(1,503)	(227)
Refining	16,965	54,410	65,462	28,247	39,119	5,912
Chemicals	20,200	23,789	34,543	15,314	18,805	2,842
Marketing and Distribution	30,735	35,554	36,071	18,108	18,843	2,848
Oil & Petrochemical Engineering Technical Services	4,203	(14,502)	(8,871)	(1,268)	1,651	250
Others	6,798	(3,296)	(15,620)	6,110	907	137
Elimination of inter-segment	1,153	(1,072)	(4,447)	(928)	(6,096)	(921)
Total	56,944	50,265	58,509	45,410	71,726	10,839

Liquidity and Capital Resources of the Company

Our primary sources of funding have been cash provided by our operating activities as well as short-term and long-term bank loans, including syndicated loans and the issuance of corporate bonds.

Our primary uses of cash have been for working capital, capital expenditures and repayment of short-term and long-term loans. We arrange and negotiate financing with financial institutions to finance our capital resource requirement, and maintain a certain level of standby credit facilities to reduce liquidity risk. We believe that our current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet our working capital requirements and repay our short-term debts and obligations when they become due.

Cash Flows

The following table sets forth a summary of our consolidated cash flows for the periods presented.

	Year Ended December 31,			Six Months Ended June 30,		
	2015	2016	2017	2017	2018	
				(unaudited)	(unaudited)	
	RMB	RMB	RMB	RMB	RMB	US$
	(in millions)					
Net cash flows generated from (used in) operating activities	169,869	214,426	205,087	65,565	71,036	10,735
Net cash flows generated from (used in) investing activities	(209,008)	(100,967)	(148,303)	(45,263)	20,934	3,164
Net cash flows generated from (used in) financing activities	97,193	(43,784)	(23,120)	(13,864)	(33,908)	(5,124)
Effect of foreign exchange rate changes	1,094	722	(2,394)	(681)	629	95
Net increase (decrease) in cash and cash equivalents	59,148	70,397	31,270	5,757	58,691	8,870
Cash and cash equivalents at the beginning of the period	35,280	94,428	164,825	164,825	169,228	25,574
Cash and cash equivalents at the end of the period	94,428	164,825	196,095	170,582	227,919	34,444

Operating activities

Our cash inflows from operating activities consist of cash received from sale of goods or rendering services, refund of tax and levy, and other cash received relating to operating activities.

Our cash outflows used in operating activities consist of cash paid for goods and services, cash paid to and on behalf of employees, cash paid on taxes and levy and other cash paid relating to operating activities.

The net cash provided by our operating activities amounted to RMB 71,036 million for the six months ended June 30, 2018, compared to RMB 65,565 million for the six months ended June 30, 2017, primarily as a result of the significant improvement of our business performance.

The net cash generated from our operating activities in 2017 was RMB 205,087million, primarily as a result of net profit of RMB 38,960 million, as adjusted mainly by depreciation and amortization of RMB 128,633 million, financial expenses of RMB 8,843 million, exploration expenses of RMB 11,120 million and the effects of changes in working capital. Changes in working capital mainly included an increase in operating payables of RMB 39,937 million, an increase in inventories of RMB 28,854 million and an increase in operating receivables of RMB 15,154 million, which were primarily due to the increased payables to our suppliers.

The net cash generated from our operating activities in 2016 was RMB 214,426 million, primarily as a result of net profit of RMB 28,199 million, as adjusted mainly by depreciation and amortization of RMB 122,184 million, financial expenses of RMB 10,450 million, exploration expenses of RMB 7,479 million and the effects of changes in working capital. Changes in working capital mainly included an increase in operating payables of RMB 69,281 million, an increase in inventories of RMB 19,381 million and an increase in operating receivables of RMB 6,705 million, which were primarily due to the increased payables to our suppliers.

The net cash generated from our operating activities in 2015 was RMB 169,869 million, primarily as a result of net profit of RMB 44,094 million, as adjusted mainly by depreciation and amortization of RMB 111,243 million, financial expenses of RMB 14,609 million, exploration expenses of RMB 6,096 million and the effects of changes in working capital. Changes in working capital mainly included a decrease in operating payables of RMB 63,471 million, a decrease in inventories of RMB 35,428 million and a decrease in operating receivables of RMB 20,535 million, which were primarily due to the decreased crude oil price in 2015.

Investing activities

Our cash outflows used in investing activities consist of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets, cash paid for investment, net cash paid to acquire subsidiaries and other operating units and other cash paid relating to investing activities. Our cash inflows generated by investing activities include cash received from disposal of investments, cash received from investment income, net cash received from disposal of fixed assets, oil and gas assets, intangible assets and other long-term assets, net cash received from disposal of subsidiaries and other operating units and other cash received relating to investing activities.

The net cash generated from our investing activities in the six months ended June 30, 2018 was RMB 20,934 million, consisting primarily of cash received from disposal of investments of RMB 108,159 million, net cash received from disposal fixed assets, intangible assets and other long-term assets of RMB 7,710 million, other cash received from investing activities of RMB 9,224 million and cash received from investment income of RMB 3,776 million, which were partially offset by cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 37,839 million, cash paid for acquisition of investments of RMB 66,887 million and other cash paid relating to investing activities of RMB 3,218 million.

The net cash used in our investing activities in 2017 was RMB 148,303 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 78,584 million, cash paid for acquisition of investments of RMB 94,540 million, other cash paid relating to investing activities of RMB 11,226 million, which were partially offset by cash received from disposal of investments of RMB 16,904 million, other cash received from investing activities of RMB 3,484 million and cash received from investment income of RMB 10,292 million.

The net cash used in our investing activities in 2016 was RMB 100,967 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 82,185 million, cash paid for acquisition of investments of RMB 44,447 million, other cash paid relating to investing activities of RMB 38,850 million, which were partially offset by cash received from disposal of investments of RMB 43,737 million, other cash received from investing activities of RMB 14,111 million and cash received from investment income of RMB 5,455 million.

The net cash used in our investing activities in 2015 was RMB 209,008 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 114,060 million, cash paid for acquisition of investments of RMB 49,701 million, other cash paid relating to investing activities of RMB 76,935 million, which were partially offset by cash received from disposal of investments of RMB 13,944 million, other cash received from investing activities of RMB 10,991 million and cash received from investment income of RMB 4,971 million.

Financing activities

Our cash inflows from financing activities consist of cash received from investment, cash received from borrowings and other cash received relating to financing activities. Our cash outflows in financing activities include cash repayments of amounts borrowed, cash repayments for distribution or dividends, profit or interest expenses and other cash payments relating to financing activities.

Our net cash used in financing activities in the six months ended June 30, 2018 was RMB 33,908 million, primarily consisting of cash repayments of amounts borrowed of RMB 476,601 million, which was partially offset by cash received from borrowings of RMB 468,333 million.

Our net cash used in financing activities in 2017 was RMB 23,120 million, primarily consisting of cash repayments of amounts borrowed of RMB 890,258 million, which was partially offset by cash received from borrowings of RMB 898,205 million. Our net cash used in financing activities in 2016 was RMB 43,784 million, primarily consisting of cash repayments of amounts borrowed of RMB 954,718 million, which was partially offset by cash received from borrowings of RMB 943,099 million. Our net cash generated from financing activities in 2015 was RMB 97,193 million, primarily consisting of cash received from borrowings of RMB 1,055,385 million, which was partially offset by cash repayments of amounts borrowed of RMB 1,056,587 million.

Borrowings and Indebtedness

The following table sets forth the breakdown of our borrowings and indebtedness by types.

	As of December 31, 2017	As of June 30, 2018	
		(unaudited)	
	RMB	RMB	US$
		(in millions)	
Bank borrowings	224,920	222,515	33,627
Bonds	258,325	255,527	38,616
Total indebtedness[1]	483,245	478,042	72,243

(1) See Note V.7 to our consolidated financial statement included elsewhere in this offering memorandum for details of our outstanding senior notes.

The following table sets forth the breakdown of our borrowings and indebtedness by maturity.

	As of December 31, 2017	As of June 30, 2018	
		(unaudited)	
	RMB	RMB	US$
		(in millions)	
One year or less	227,031	214,125	32,359
Over one year to five years	170,347	174,050	26,303
Over five years	85,867	89,867	13,581
Total indebtedness	483,245	478,042	72,243

The following table sets forth the breakdown of our borrowings and indebtedness by security interest.

	As of December 31, 2017	As of June 30, 2018	
		(unaudited)	
	RMB	RMB	US$
		(in millions)	
Secured	61	60	9
Unsecured	483,184	477,982	72,234
Total indebtedness	483,245	478,042	72,243

As of June 30, 2018, 37.1% of our borrowings and indebtedness were denominated in Renminbi and 62.9% were denominated in foreign currency; 75.6% of our borrowings and indebtedness were fixed rate and 24.4% were floating rate. Our bank borrowings consist mainly of short-term loans, long-term borrowings due within one year and long-term loans due in more than one year. Included in secured borrowings and indebtedness are bank loans guaranteed by third parties or secured through mortgage or pledge. As of June 30, 2018, the total lines of credit available to us were approximately RMB 1,600 billion, of which approximately RMB 1,100 billion was unused. Our bonds payable consists of long-term corporate bonds and short-term financing bills, substantially all of which were unsecured.[2]

Contractual Obligations and Commercial Commitments

The following table sets forth our obligations and commitments to make future payments under contracts and commercial commitments as of December 31, 2017.

	As of December 31, 2017			
	Total	**Less than 1 year**	**1-5 years**	**After 5 years**
	(RMB in billions)			
Contractual obligations [1]				
Short-term debt	227.0	227.0	—	—
Long-term debt	256.2	—	170.3	85.9
Total contractual obligations	483.2	227.0	170.3	85.9
Other commercial commitments				
Operating lease commitments	257.1	11.1	43.2	202.8
Capital commitments	178.4	117.0	61.4	—
Exploration and production licenses	1.3	0.2	0.2	0.9
Guarantees[2]	99.2	6.4	53.7	39.1
Total commercial commitments	536.0	134.7	158.5	242.8

(1) Contractual obligations include the contractual obligations relating to interest payments.

(2) See Note IX.1 to the Auditor's Report included in this offering memorandum for further information of the guarantees.

2 For a description of our corporate and convertible bonds, please see Note VIII.32 to the Auditor's Report included in this offering memorandum.

Capital Expenditure

The following table sets forth our capital expenditure by segment for the periods presented and the capital expenditure in each segment as a percentage of our total capital expenditure for such period.

	2015		2016		2017		Six Months Ended June 30, 2017 (unaudited)		Six Months Ended June 30, 2018 (unaudited)	
	RMB	Percent	RMB	Percent	RMB	Percent	RMB	Percent	RMB	Percent
	(in millions, except percentage data)									
Exploration and production	54,710	42.1%	32,188	36.4%	31,343	28.8%	6,870	28.7%	10,762	43.2%
Refining	15,132	11.6%	14,347	16.2%	21,075	19.4%	3,672	15.4%	4,610	18.5%
Chemicals	20,095	15.4%	10,713	12.1%	24,051	22.1%	3,105	13.0%	3,135	12.6%
Marketing and Distribution	22,115	17.0%	18,493	20.9%	21,539	19.8%	2,500	10.5%	5,373	21.6%
Oil and Petrochemical Engineering Technical Services	5,363	4.1%	5,076	5.7%	2,974	2.7%	336	1.4%	437	1.8%
Others	12,655	9.7%	7,858	8.9%	7,725	7.1%	7,416	31.0%	592	2.4%
Elimination of inter-segment	—	—	(146)	(0.2%)	—	—	—	—	—	—
Total	130,070	100.0%	88,529	100.0%	108,708	100.0%	23,899	100.0%	24,909	100.0%

Off-Balance Sheet Arrangement

As of the date of the offering memorandum, we had no off-balance sheet arrangements as determined for purposes of PRC GAAP other than the contingent liabilities discussed below. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences between PRC GAAP and U.S. GAAP."

Contingent Liabilities from Guarantees

As of December 31, 2017, the total amount of guarantees provided by us was RMB 99,203 million, a majority of which were related to loans. As the former sole shareholder of SIPC, we have provided guarantees in an aggregate amount of RMB 77,816 million to SIPC as of December 31, 2017 to support its business operation, which include but are not limited to loan guarantees and performance guarantees. See Note IX.1 to the Auditor's Report included in this offering memorandum for further information on the guarantees. We expect that no material liabilities will arise from our guarantees or legal proceedings.

Dividends

As a state-owned limited liability company incorporated in China, we distribute profits to the relevant PRC authorities from time to time. In 2017, we distributed RMB 8,504 million to the relevant PRC authorities.

Market Risks

Currency Risk

We conduct our businesses primarily in Renminbi. However, there are also foreign currency-denominated transactions arising from our foreign operations. We are exposed to U.S. dollar/Renminbi exchange rate risk as our revenue is principally generated in Renminbi and we have issued debt obligations that require us to make interest and principal payments in U.S. dollars. Currently, the PRC government has implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi is still regulated in capital projects. The exchange rates of Renminbi are affected by domestic and international economic and political changes, and demand and supply for Renminbi. Future exchange rates of Renminbi against other currencies may vary significantly from the current exchange rates, which in turn would affect our operating results and financial position as well as our ability to service our foreign currency-denominated debt obligations.

Interest Rate Risk

Our interest rate risk exposure arises from changing interest rates on our debt, including fair value interest rate risk in relation to our fixed-rate debt and cash flow interest rate risk in relation to variable-rate bank balances and borrowings. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. The management monitors interest rates and may consider hedging significant interest rate exposure if needed.

Price Risk

We are engaged in the oil and gas business and changes in prices of oil and gas products, which are beyond our control, will positively or negatively affect our results of operations. We are also exposed to equity price risk either through our long-term equity investments, available-for-sale investments or held-for-trading investments in respect of equity securities listed in the respective stock exchanges. Management manages equity price risk arising from these investments by closely monitoring the performance of respective listed equity securities and market conditions. Management will consider diversifying the portfolio of these investments as appropriate.

Inflation

In 2015, 2016 and 2017, the Consumer Price Index increased by 1.4%, 2.0% and 1.6%, respectively, from the previous year, according to the PRC National Bureau of Statistics. Although we have not historically been materially affected by inflation since our inception, our results of operations may in the future be adversely affected by higher inflation rates in China.

The information in the section below has been derived, in part, from various public and government publications unless otherwise indicated. This information has not been independently verified by the Issuer, the Company, the Joint Global Coordinators or the Initial Purchasers or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the PRC.

Overview of the Global Oil and Gas Market

Oil and Gas Consumption

Global oil demand has grown steadily in recent years, with consumption tripled over the past fifty years. According to the BP Statistical Review of World Energy June 2018 (the "BP Review"), global oil consumption grew from 87.1 million barrels per day ("million bpd") in 2007 to 98.2 million bpd in 2017, representing a compound annual growth rate ("CAGR") of 1.2%. According to the BP Energy Outlook (the "BP Outlook"), global oil consumption is projected to grow, reaching to 4,836 million tonne of oil equivalent in 2040, representing a CAGR of 0.3% over the period from 2017 to 2040.

The growth in global oil consumption is driven primarily by developing country economies, among which China has been the primary contributor with ever-increasing import demands. According to the BP Review, China's oil consumption has grown from 7.8 million bpd in 2007 to 12.8 million bpd in 2017, representing a CAGR of 5.1%. In contrast, oil consumption in major economies, such as the United States and Russia, grew at CAGRs of -0.4% and 1.5%, respectively, over the same period.

Similar to oil demand, global natural gas demand has also grown rapidly in recent years, with consumption expanding over five times over the past fifty years. According to the BP Review, global natural gas demand grew from 286.2 billion cubic feet per day ("bcf/d") in 2007 to 355.1 bcf/d in 2017, representing a CAGR of 2.2%. In addition, the BP Outlook forecasts global natural gas consumption to grow and reach 502.4 bcf/d in 2040, representing a CAGR of 1.5% over the period from 2017 to 2040.

The growth in global natural gas consumption has been driven primarily by countries that are not members of the Organization for Economic Co-operation and Development ("OECD") and developing economies. In particular, China has been the key contributor to natural gas consumption growth in the past decade. According to the BP Review, China's natural gas consumption grew from 6.9 bcf/d in 2007 to 23.3 bcf/d in 2017, representing a CAGR of 13.0%.

Oil and Gas Production

On the supply side, according to the BP Review, global oil production increased by 0.7% from 2016 to 2017 and reached 92.6 million bpd in 2017. OPEC countries decreased their production by 165.3 thousand bpd in 2017, representing a 0.4% decrease from 2016. According to the BP Review, global natural gas production increased by 4.0% from 2016 to 2017 and reached 356.1 bcf/d in 2017. The United States and Russia are the two largest natural gas producers in the world. The United States recorded a production increase of 1.0% or 0.7 bcf/d, and Russia recorded a production increase of 8.2% or 4.6 bcf/d from 2016 to 2017. Natural gas was the largest source of energy growth, boosted by a massive programme of coal-to-gas switching in industrial and residential sectors in China. Unconventional gas resources such as shale gas, coal bed methane and tight gas are expected to play an increasingly important role in the world's future energy supply.

Currently, many of the conventional oil- and gas-producing countries have passed their peak production level based on the current oil and gas reserves and available extraction and drilling technologies.

Oil and Gas Prices

The global economic downturn and subsequent recovery have resulted in unprecedented volatility in the oil and gas industry over the last few years. The West Texas Intermediate ("WTI") and the Brent crude oil prices increased from US$101/bbl and US$106/bbl, respectively, on April 1, 2008 to a record high of US$145/bbl and US$146/bbl, respectively on July 3, 2008 as a result of strong oil demand combined with limited supply due to limited spare production capacity in OPEC countries as well as constant supply disruptions in key regions such as Russia, the Middle East and West Africa. This was followed by a sharp decrease in the oil prices to US$40/bbl and US$41/bbl on December 22, 2008, with the collapse of major financial institutions and a slowdown in economic activity throughout the globe.

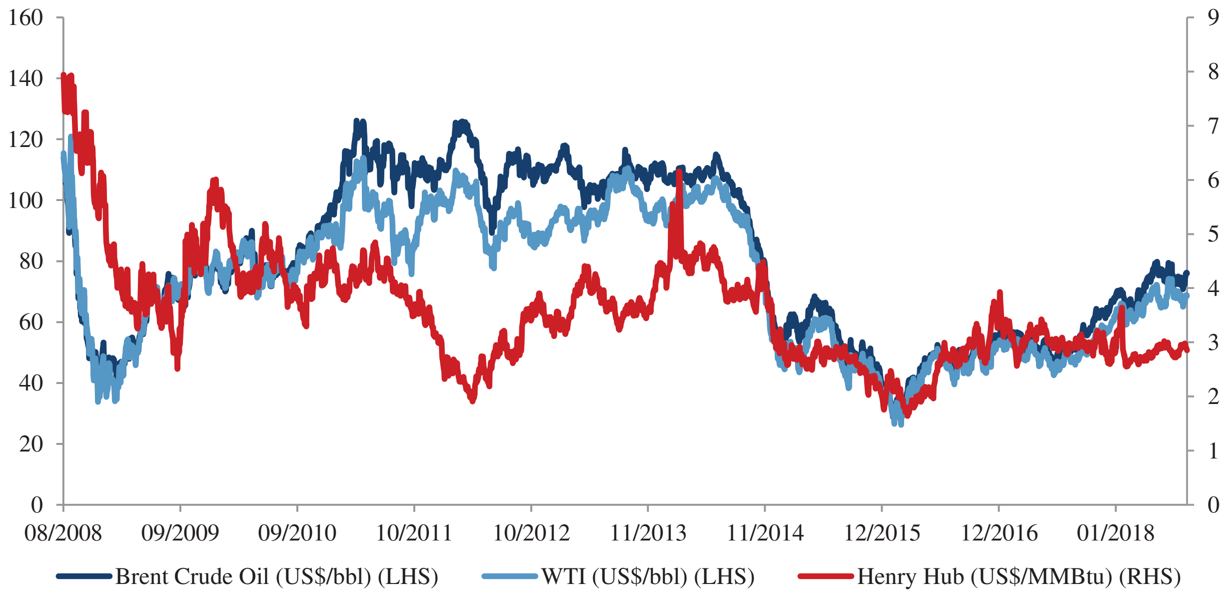
Since then, oil prices have rebounded significantly due to oil being bought and held in storage and sold at higher forward prices, a rebound in global economic activity and China's continued growth in oil demand. As a result, WTI and Brent crude oil prices have recovered and stayed above US$100/bbl in February 2014. Since the third quarter of 2014, as a result of weak demand growth in the global oil market coupled with a substantial increase of supply from North America shale, WTI and Brent crude oil prices have decreased to US$69/bbl and US$76/bbl, respectively, as of August 28, 2018.

Oil prices are affected by a number of factors, including changes in supply and demand fundamentals, OPEC regulations, weather conditions, government regulations, as well as political and economic conditions. Moreover, the price and availability of various alternative energy substitutes increasingly affecting oil prices. Extended periods of high oil prices can therefore lead to increased usage of alternative energies at the cost of demand for oil.

According to the U.S. Energy Information Administration (EIA)'s Annual Energy Outlook 2018, WTI and Brent crude oil prices are expected to increase in the long term and reach US$83/bbl and US$86/bbl in 2025 respectively and US$110/bbl and US$114/bbl in 2050 respectively, in real terms. On the other hand, natural gas prices in certain regions such as the U.S. have witnessed a decoupling from oil prices. Prior to the global economic recession in 2010, natural gas prices were positively correlated with oil prices, evidenced by Henry Hub natural gas price peaking on July 2, 2008 at US$13.31 per million British Thermal Units ("MMBtu"). Following the peak, Henry Hub natural gas prices fell sharply as the global recession began. As oil prices rebounded since 2009, Henry Hub natural gas prices continued to fall and decreased to US$1.83/MMBtu on September 4, 2009. The decoupling of oil and natural gas price is largely due to the discovery of gas from previously untapped unconventional gas resources such as the North America shale. On August 28, 2018, Henry Hub price reached to US$2.85/MMBtu.

According to EIA's Annual Energy Outlook 2018, Henry Hub natural gas price will increase in the long term and reach US$4.07/MMBtu in 2025 and US$5.01/MMBtu in 2050 in real terms.

Historical WTI Oil, Brent Oil and Henry Hub Natural Gas Prices



Source: EIA. Commodity prices up to August 28, 2018.

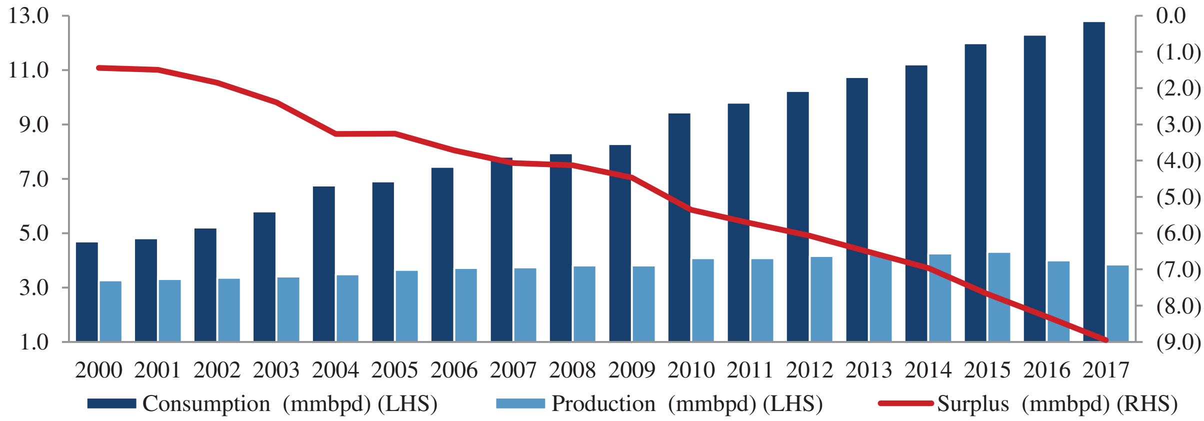
Overview of the Chinese Oil and Gas Market

Despite increasing participation from independent oil companies, China's oil and gas industry remains dominated by three key state-owned oil and gas companies: the Company, China National Petroleum Corporation ("CNPC") and China National Offshore Oil Corporation ("CNOOC"). The Company is the leading integrated energy and chemical company with businesses across the entire oil and gas value chain. As of December 31, 2017, the Company is the largest refined oil and chemical product producer and supplier in terms of refinery throughput and one of the largest oil and gas producers in China. CNPC is the largest among the three in terms of proved oil and gas reserves and production. Together with its listed subsidiary PetroChina, CNPC accounts for the bulk of China's domestic oil and gas production. CNOOC, on the other hand, is the largest producer of China's offshore crude oil and natural gas. Apart from the three major oil companies, Sinochem Corporation ("Sinochem"), which has a strong position in the oil trading business, has been expanding its upstream operations primarily through acquisitions of overseas oil and gas assets. However, Sinochem's oil and gas reserves and production are still relatively small compared to the other three national oil companies.

Oil and Gas Consumption and Production in China

Strong economic growth in the past three decades has transformed China into the world's largest energy consumer and largest net importer of oil. According to the BP Review, oil consumption in China increased from 7.8 million bpd in 2007 to 12.8 million bpd in 2017, representing a CAGR of 5.1%. In contrast, China's oil production only increased from 3.7 million bpd in 2007 to 3.8 million bpd in 2017, representing a CAGR of 0.3%. According to EIA Short-Term Energy Outlook in August 2018, China's oil consumption is estimated to reach 14.2 million bpd by 2019.

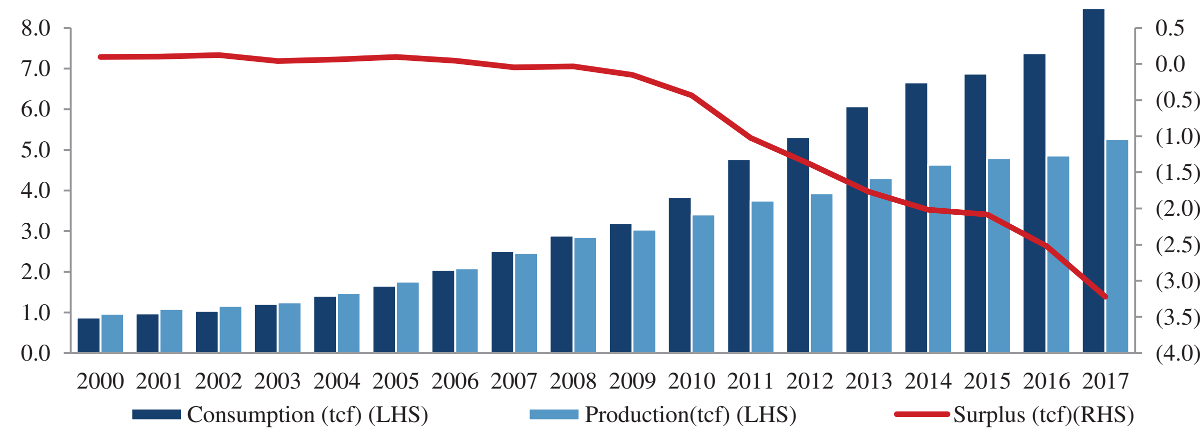
China Oil Supply and Demand



Source: BP Statistical Review of World Energy June 2018.

According to BP Review, natural gas consumption in China has grown from 2.5 trillion cubic feet ("tcf") in 2007 to 8.5 tcf in 2017, representing a CAGR of 13.0%. In contrast, natural gas production grew at a relatively slower pace, reaching 5.3 tcf from 2.5 tcf during the same period, representing a CAGR of 7.9%. The increase in domestic production alone is not sufficient to meet demand and China has become a net importer of natural gas since 2007 and is expected to continue to rely on imports to meet domestic demand in the near future.

China Natural Gas Supply and Demand



Source: BP Statistical Review of World Energy June 2018.

The rising demand for oil and gas in China, along with the declining production capacity of oil and the expected shortfall of domestic gas production, has resulted in a large and growing supply gap in China's domestic oil and gas market.

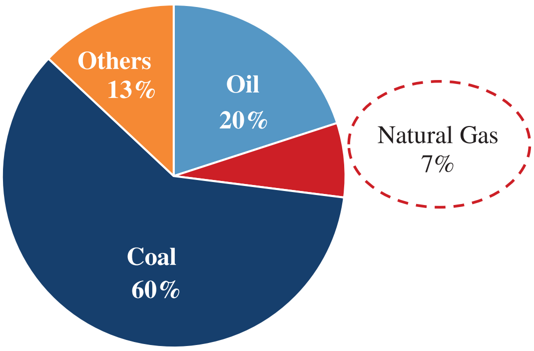
Chinese Natural Gas Market Overview

Because of insufficient oil production capacity, growing concerns about environmental issues, and rising oil prices, China has been active in searching for alternative energy sources. Natural gas is the preferred choice as existing infrastructures, technology restrictions and scale limitation make most of the other choices unviable. In addition, the Chinese government has released policy guidelines to increase consumption of natural gas in order to diversify China's energy mix and reduce pollution. Based on the BP Review, natural gas only accounted for approximately 6.6% of China's energy consumption in 2017, which was much lower than the world average level of 23.4% in 2017. According to the State Council's Energy Development Strategy Plan (2014-2020), this proportion is expected to increase to at least 10% by 2020, with the continuous improvement of energy infrastructure.

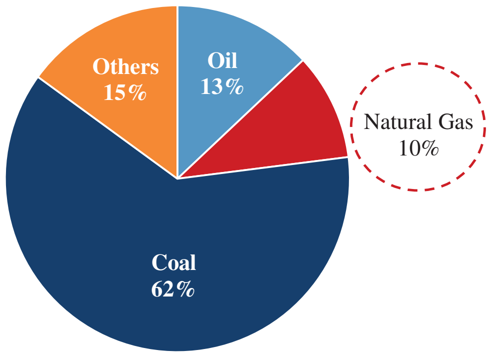
China is more resourceful in both conventional gas and unconventional gas (including coal bed methane and shale gas) than in oil. However, China's natural gas market is still in short supply and the gap between demand and supply is expected to broaden. To meet the increasing demand for natural gas, China has been aggressively importing long-distance piped gas from gas-rich regions such as Russia and Central Asia, as well as LNG from Qatar, Australia, Malaysia and Indonesia. The PRC government is planning cross-border, long-distance pipelines and having a number of LNG regasification terminals under construction or in the planning stage.

Change in China's Primary Energy Consumption Composition

China's Energy Mix in 2017

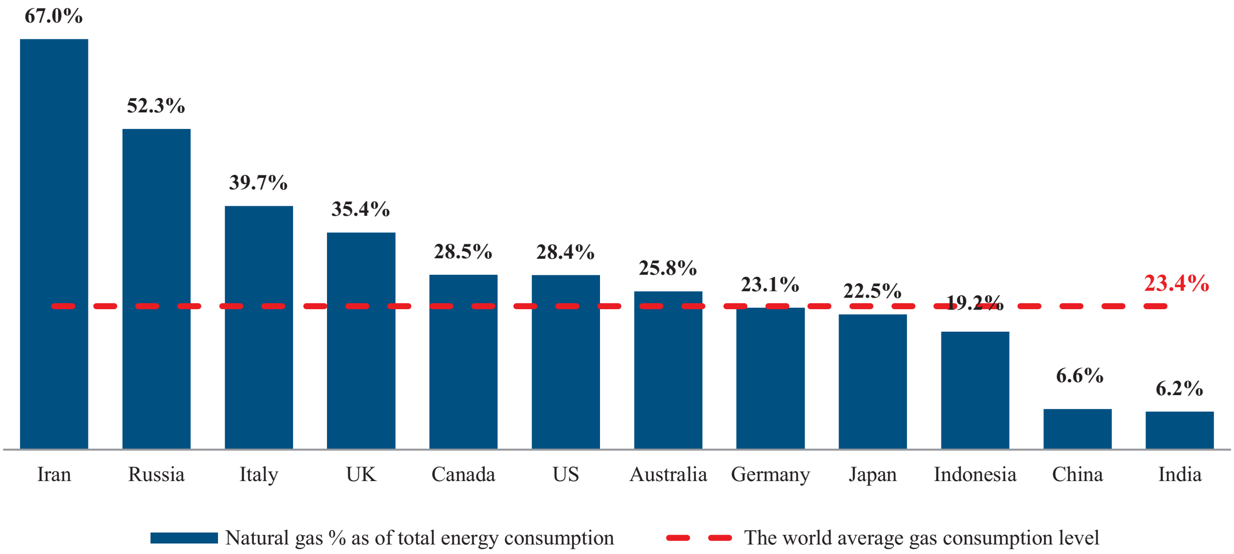


China's Energy Mix in 2020E



Source: BP Statistical Review of World Energy June 2018; the State Council's Energy Development Strategy Plan (2014-2020).

Comparison of Natural Gas Consumption Levels (2017)



Source: BP Statistical Review of World Energy June 2018.

In addition, China National Energy Administration released the first Shale Gas Industry Policy on October 22, 2013 to call for more financial support from the government for shale gas development and exploration. In particular, subsidies should be given directly to a shale gas production company according to the amount of its shale gas development and utilization, provided that certain conditions are met. Local governments are also encouraged to provide subsidies, with the amount to be determined by local financial authorities. The policy also calls for waive or reduction of compensatory fee for mineral resources and royalty fee, as well as new incentive policies for value-added tax, resources tax, enterprise income tax, and customs duties for imports of production equipment.

Driven by environmental and efficiency concerns, the PRC government has been increasingly encouraging industrial and residential use of natural gas to meet primary energy and environmental protection needs. The PRC government has adopted a preferential value-added tax rate of 11% (10% effective from May 1, 2018) for natural gas sales as compared to a 17% value-added tax rate for crude oil production (16% effective from May 1, 2018). In addition, the NDRC launched pilot reforms on natural gas pricing in Guangdong Province and Guangxi Zhuang Autonomous Region in December 2011, marking the PRC government's efforts to shift natural gas pricing toward a more market-oriented system. Under the pilot reforms, the prices of natural gas were pegged to the prices of alternative energies to better trace and reflect market demand and supplies, as well as guide reasonable distributions. On June 28, 2013, the NDRC lifted wellhead natural gas prices for non-residential users by 15%, from RMB 1.69 per cubic meter to RMB 1.95 per cubic meter, effective from July 10, 2013. On September 1, 2014, the NDRC applied a RMB 0.40 per cubic meter upward adjustment to regulated price ceilings for base gas across the country except Guangdong and Guangxi to close the gap between regulated base and incremental price ceilings. Further in late February 2015, the NDRC announced that effective from April 1, 2015, China's non-residential gas citygate price ceilings for incremental gas (additional consumption beyond 2012 level) will be lowered by RMB 0.44 per cubic meter, and that for base gas (2012 non-residential consumption) will be raised by RMB 0.04 per cubic meter. The latest non-residential gas price adjustment makes the end of the two-tier non-residential gas pricing system. In addition, the NDRC also announced that for direct-supply of natural gas to industrial end users, such as gas fired power generators, energy projects, large petrochemical projects, citygate price will no longer be subject to government set price ceilings, and can be negotiated directly by sellers and buyers starting April 1, 2015. On November 18, 2015, the NDRC announced that effective from November 20, 2015, non-residential gas citygate price ceiling was lowered by RMB 0.7 per cubic meter. Moreover, according to the latest notice, city-gate price would no longer be the ceiling price but it would become a benchmark price, meaning that it could be subject to negotiation between suppliers and buyers, and any upward adjustment not exceeding 20% or floorless downward adjustment could be made. On August 29, 2017, the NDRC announced that effective from September 1, 2017, non-residential gas benchmark price was lowered by RMB 0.1 per cubic meter.

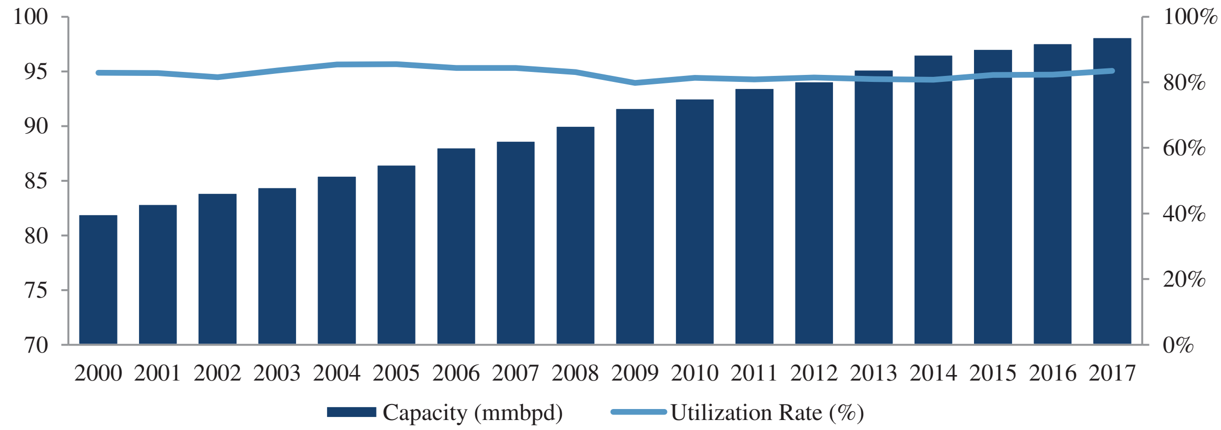
Global Refining Market Overview

The global refining sector has been supported by the recovery of global economic growth and oil demand in the past four years. Increasing demand for refined oil products from non-OECD countries and regions such as China, India, the Middle East and Latin America is expected to continue driving global oil consumption in the foreseeable future.

The ongoing industry consolidation has resulted in larger and fewer refineries worldwide. Despite current capacity surplus, capacity additions will likely to continue as a result of demand growth, a shift towards low cost producing region and higher complexity. China, India and the Middle East are expected to drive capacity buildup in the near future.

Global refining utilization rates were consistently around 80% since 1988. The utilization rate dropped to 79.8% in 2009 after the financial recession and slowly recovered afterwards. Refining margins have remained relatively steady since mid-2010 despite some volatility and peripheral concerns over the European economy. Margins in 2009 were hit particularly hard due to a slowdown in global economy and overcapacity from overexpansion as refiners attempted to capitalize on previously wide light-heavy differentials. In Asia, refining margins were well supported by healthy product markets and relatively eased crude prices on expectations of improved supply and remained stable.

Global Refining Capacity and Utilization Rate



Source: BP Statistical Review of World Energy June 2018.

Chinese Refining Market Overview

China's demand for petroleum products, in particular light and medium distillates, is expected to continue, mainly driven by sustained economic growth and a steady rise in automobile ownership. Improving industrial activities and highway networks should also increase the demand for trucks. At the same time, stronger demand for refining feedstock such as naphtha is expected going forward, mainly driven by incremental ethylene capacity and higher consumption of petrochemical products.

On the supply side, China's refining capacity is expected to continue to outpace domestic demand growth, which would potentially reduce the country's reliance on oil product import. According to the IEA, China's capacity will reach 15.3 million bpd in 2021.

China's refining sector has undergone modernization and consolidation in recent years. Currently, most of the refining capacity in China is held by Sinopec and CNPC. In addition, both companies are having a number of major project commissions in the next few years. CNOOC has also entered the downstream arena recently and commissioned its first refinery in 2009 to process the high-sulfur crudes from its Bohai Bay fields. Sinochem has also proposed a number of new refineries through potential partnerships with national oil companies from Kuwait and Saudi Arabia.

China's refineries are adjusting to the changing crude slate. Traditionally, many of China's refineries were built to handle relatively light and sweet crude oils. In recent years, refiners have built or upgraded facilities to support more crude oil imported from Middle East, which tend to be heavy and sour and more recently, for high-acid and high-sulfur crude oil streams.

The NDRC has the authority to adjust the sale prices of refined oil products in China based on market price fluctuations and macroeconomic conditions. In 2013, the NDRC adjusted the sale prices of gasoline and diesel 15 times to reflect the global market dynamics of crude oil prices. Previously, these prices in China were based on the crude oil benchmark prices of Brent, Dubai and Cinta. However, on March 26, 2013, the NDRC announced further steps to adjust the existing refined oil pricing mechanism. The adjustments to oil pricing mechanism include, among other things, (i) shortening of price reference period from 22 working days to 10 working days and lifting the 4% downward and upward fluctuation cap on benchmark crude oil prices; (ii) changing the composing types of benchmark crude oil in response to the changes taking place with respect to composition of imported crude oil and crude oil trading in the overseas market; and (iii) issuing additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustment upon the approval by the State Council, to regulate significant fluctuations of crude oil price. In 2015, the NDRC adjusted the sale prices of refined oil products 37 times to reflect the global market dynamics of crude oil prices. On January 13, 2016, the NDRC announced that the price of refined oil products will not be adjusted as long as the price of crude oil is below $40/bbl. Profits from refined oil products sales below the $40 level will be deposited in a fund to promote energy conservation and security and improve fuel quality, according to the NDRC. In 2017 and 2018 year to date, the NDRC adjusted the sale prices of refined oil products 17 times and 16 times respectively to reflect the global market dynamics of crude oil prices.

Global Petrochemical Market Outlook

Global demand for petrochemical products is expected to grow following the continued economic recovery, with Asia and the Middle East serving as the main driving force. Based on sustained strong economic growth, petrochemical markets in China, India and Southeast Asia are to see a demand surge in the next five years, and Asia is expected to contribute the majority of the total incremental global petrochemical demand. Due to close proximity to vast hydrocarbon resources, Middle East ethylene producers will continue to benefit from a substantial raw material cost advantage.

Chinese Petrochemical Market Overview

As a result of rapid industrialization and continued economic growth, China has become the world's largest petrochemical market in terms of both production capacity and consumption. Demand for key petrochemical products, such as ethylene, is expected to remain robust. The significant addition of new ethylene and derivative projects announced in China over the next few years is in tandem with the strong expectation in demand growth. In general, large-scale capacity expansion and new investments across China's petrochemical sector is expected in the foreseeable future, as China's self-sufficiency rate in petrochemicals remains low, particularly of high-value added products.

Overview

The Company

We are the largest integrated petroleum and petrochemical companies in China and one of the largest in the world in terms of revenue, according to the "2018 Fortune Global 500." We are the largest refined oil producer in the world in terms of crude oil throughput in 2017. We are the second largest oil and gas producer in China in terms of production volume in 2017. We are also the largest distributor of refined oil products in China measured by sales volume in 2017, and the number of our service stations ranked first in China and second in the world as of June 30, 2018. We ranked first in China in terms of production volume of major petrochemical products in 2017. We have been named in the "Fortune Global 500" since 2003 and ranked third in the "2018 Fortune Global 500" in terms of revenue.

We were established in July 1998 on the basis of the former China Petrochemical Corporation. We are a sate authorized and invested entity and one of China's key SOEs under the supervision of the SASAC. We conduct the following key businesses:

- ***Exploration and Production***: We are China's second largest oil and gas producers based on production volume in 2017. We maintained a balanced portfolio of domestic and overseas resources, optimized our development programs in mature oilfields, and increased the production capacity in new fields. We made a number of new discoveries of oil and gas in the Xinjiang Tahe Basin, the Sichuan Basin, Beibu Gulf of the South China Sea, the Ordos Basin, the Tarim Basin, the Junggar Basin, Yin'e Basin, Shengli Oil Field and the North Jiangsu Basin. As of December 31, 2017, we had 3,304 million boe of proved reserves of crude oil and natural gas, including 1,935 million barrels of crude oil and 8,214 bcf of natural gas. In 2017 and the six months ended June 30, 2018, our production of crude oil and natural gas was 525 million and 262 million boe, respectively. We are also exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide a more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, LNG, geothermal heating, solar photovoltaics and other unconventional energies. In 2017, the Fuling shale gas field reached an annual production capacity of 10 billion cubic meters.

- ***Refining***: We are the largest refined oil producer in the world in terms of crude oil throughput in 2017. In 2017 and the six months ended June 30, 2018, we processed 240 million tonnes and 122 million tonnes of crude oil, representing approximately 42.3% and 40.6% of the total crude oil processed in China, respectively. We operate 31 refineries in China, including 15 with refining capacity of 10 million tonnes or more per annum, which are located in China's eastern and southeastern regions with more developed economies, higher population densities and larger numbers of oil product consumers than the other regions in China. We commenced production of our self-developed bio-jet fuel, which uses vegetable oils as feedstock, in 2011. It was successfully used in trial commercial flights in 2015, resulting in us receiving the first license to produce bio-jet fuel in China and China being the fourth country in the world to have proprietary technologies to produce bio-jet fuel.

- ***Chemicals***: We are the largest producer of major petrochemical products in China and one of the largest in the world in terms of production volume in 2017. We believe we have greater economies of scale in most of our production facilities and more extensive distribution channels in China than our competitors. We produce a wide range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fiber, synthetic rubbers and synthetic ammonia. In 2017 and the six months ended June 30, 2018, we produced 11.6 million tonnes and 5.8 million tonnes of ethylene, the primary feedstock for our chemical production, respectively. Our chemical products are widely distributed throughout China and used in various industries including textiles, agriculture, construction, shoes, housewares, packaging, electronic appliances and automobiles.

- ***Marketing and Distribution***: We are the largest distributor of refined oil products in China measured by sales volume in 2017. In 2017, our domestic market share with respect to the sales of refined oil products was 58% as to major refined oil products, which include gasoline, diesel and kerosene (including jet fuel). We sell most of our major refined oil products through retail service stations that operate under the "Sinopec" brand. Our strong retail network provides extensive geographic coverage of retail sales across China. As of June 30, 2018, we had 30,645 service stations, representing the largest oil products distribution network in China. The retail sales volume of gasoline, diesel and kerosene (including jet fuel) through these service stations accounted for approximately 68.4% and 67.0% of our major refined oil products sales volume in China for the year of 2017 and the first half of 2018, respectively. As of June 30, 2018, we had more than 1,000 service stations in each of 14 provinces, most of which are located in China's eastern and southern regions. As of June 30, 2018, we had over 14,000 kilometers of refined oil pipelines, and 18.2 million cubic meters of refined oil product storage capacity. In 2017 and the six months ended June 30, 2018, we sold 198.8 and 96.5 million tonnes of major refined oil products, respectively. We have developed non-fuel businesses for our full-service stations to transform our network of traditional service stations into a comprehensive one-stop multifunctional integrated service platform that combines "fueling, shopping, dining and car services." The number of our Easy Joy convenience stores, most of which are located in our service stations, reached 26,424 as of June 30, 2018. In addition, we have expanded our business into electric vehicles charging market by co-operating with our business partners, such as Beijing Electric Vehicle Co., Ltd., to integrate charging and power stations for electric vehicles into our service stations.

- ***Oil and Petrochemical Engineering Technical Services***: We believe we are one of the largest refining and chemical engineering technical service providers in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. Equipped with our in-house technologies and patents, we are a technological leader in refining and chemical engineering design both in China and overseas. In the first half of 2018, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US$0.5 billion and US$0.9 billion, respectively. In addition, our oil engineering technical service teams have provided services in 34 countries and regions in relation to more than 319 oil engineering technical service contracts as of December 31, 2017. In the first half of 2018, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US$1.1 billion and US$1.8 billion, respectively.

- ***Others***: We also engage in international trade, research and development and other businesses, which are collectively referred to as our "Others" segment. We had a total crude oil trade volume of 364 million tonnes in 2017.

The following table sets forth our operating revenues by business segment for the periods presented.

	Year Ended December 31,		Six Months Ended June 30,			
	2017		2017		2018	
	(audited)		(unaudited)		(unaudited)	
	RMB (in millions)	Percentage[2]	RMB (in millions)	Percentage[2]	RMB (in millions)	Percentage[2]
Total Operating Revenues [1]:						
Exploration and Production	157,504	3.90%	74,109	3.77%	87,925	3.81%
Refining	1,011,853	25.06%	488,172	24.84%	593,327	25.69%
Chemicals	474,471	11.75%	225,328	11.47%	276,229	11.96%
Marketing and Distribution	1,224,198	30.33%	605,960	30.83%	668,325	28.94%
Oil & Petrochemical Engineering Technical Services	89,328	2.21%	35,138	1.79%	43,996	1.91%
Others	1,079,566	26.74%	536,506	27.30%	639,519	27.69%
Elimination of inter-segment	(1,636,602)		(778,713)		(982,064)	
Total	2,400,318		1,186,500		1,327,257	

(1) Revenues breakdown by segments is calculated without taking into account inter-segment elimination.

(2) Percentage of revenues is based on total operating revenues before inter-segment elimination.

Sinopec Corp.

Sinopec Corp. is an integral and significant part of the Company. It was established as a joint stock company with limited liability under the Company Law of the PRC on February 25, 2000 as part of a restructuring in which the Company transferred to Sinopec Corp. the majority of our production operations. Sinopec Corp. mainly conducts domestic oil and gas exploration, development and production; crude oil refining; the marketing and distribution of refined oil products; and the production and sales of petrochemical products. Sinopec Corp. is the first company in China to have obtained a listing of its shares on four stock exchanges. Its H shares and American Depositary Shares representing H shares were simultaneously listed on the SEHK (stock code: 0386), the New York Stock Exchange (stock code: SNP) and the London Stock Exchange (stock code: SNP) on October 18, 2000; and its A shares were listed on the Shanghai Stock Exchange (stock code: 600028) on August 8, 2001. Sinopec Corp. was awarded "Best Managed Company" by FinanceAsia in 2011, "Best Managed Company in China" by Euromoney in 2012, "Global Compact Best China Practice Award" by UN Global Compact Network in 2012, and "Crisis Management and CRS Gold Awards" by Asia-Pacific SABRE Awards in 2013, "Shale Oil and Gas International Pioneer" by International Gas Union and American Gas Association in 2014, as well as "Global Competitive Brands — Top 10 from China" by the International Data

Group for six consecutive years. As of June 30, 2018, the equity interest held by the Company, directly and indirectly, in Sinopec Corp. remained at 71.32%. Sinopec Corp. accounted for over 60% of the Company's total assets as of December 31, 2017 and over 90% of the Company's revenue for the year ended December 31, 2017, according to the audited consolidated financial statements of Sinopec Corp. and of the Company prepared in accordance with PRC GAAP. For more information of Sinopec Corp., see Sinopec Corp.'s periodic filings with the SEC on www.sec.gov. Sinopec Corp.'s periodic filings do not constitute part of this offering memorandum.

Sinopec Engineering

Sinopec Engineering is a subsidiary of the Company and focuses on providing integrated engineering and technical services for domestic and overseas refining and chemical engineering market. It is the largest refining and petrochemical engineering company in China. In May 2013, the H shares of Sinopec Engineering were successfully listed on the SEHK (stock code: 2386). Sinopec Engineering's periodic filings do not constitute part of this offering memorandum.

Sinopec Oilfield Service

Sinopec Oilfield Service, formerly Sinopec Yizheng Chemical Fibre Company Limited ("Yizheng"), is a subsidiary of the Company focusing on providing petroleum engineering and technical services. In December 2014, pursuant to a series of agreements entered into by the Company, Sinopec Corp. and Yizheng, Yizheng transferred all of its chemical fibre business to Sinopec Corp., and the Company injected its petroleum engineering business into Yizheng. In March 2015, Yizheng changed its name to Sinopec Oilfield Service. Sinopec Oilfield Service is the largest petroleum engineering and oilfield technology service provider in China, and an integrated contractor and technology service provider. On March 3, 2015, Sinopec Oilfield Service raised approximately RMB 6 billion from a nonpublic issuance of new A-shares to investors. Sinopec Oilfield Service's periodic filings do not constitute part of this offering memorandum.

Sinopec Lubricant

Sinopec Lubricant is an indirect subsidiary of the Company specializing in the production, marketing and research and development of lubricant products and services. It is the largest lubricant group with the most comprehensive production lines in Asia, and owns the most recognized brand in China's lubricant industry: Great Wall Lubricant.

Sinopec Catalyst

Sinopec Catalyst is an indirect subsidiary of the Company and an investment platform for the production, marketing and management of catalysts. It is one of the largest producers, suppliers and services providers of oil refining and chemical catalysts in the world.

Competitive Strengths

We are a global leader and the largest integrated petroleum and petrochemical companies in China with strong government support.

We are the largest integrated petroleum and petrochemical companies in China and one of the largest in the world in terms of operating revenue, according to the "2018 Fortune Global 500." In 2017, we reported an operating revenue of RMB 2.4 trillion, which ranked third among "2018 Fortune Global 500" companies.

We maintain a leading position in China's petroleum and petrochemical industry. In 2017, we accounted for approximately 42.3% of crude oil processed, 58.0% of major refined oil products sales volume and 63.7% of ethylene production in China.

We play a broad and strategically important role in facilitating China's overall economic growth and development, and we benefit from strong government support. We are 100% owned and controlled by the SASAC and operate under the supervision of the SASAC. The PRC government has designated us to establish China's National Strategic Crude Oil Storage. The energy industry we operate in is strategically important to China's economic growth, and we have important responsibilities in implementing national energy policies and securing refined oil products supplies necessary for China's continued economic growth.

In the first half of 2018, our operating revenue accounted for approximately 3.2% of China's GDP. Our 2017 consolidated tax payments in China accounted for approximately 2.0% of China's total government fiscal income in 2017.

We operate effectively as an integrated petroleum and petrochemical company with a leading position in every segment along the oil and gas value chain.

Our core business covers all segments of the oil and gas value chain from upstream and midstream to downstream. Our integrated operations generate substantial synergies which we believe both facilitate value maximization and resources sharing along the petroleum and petrochemical business chain as well as enhance our risk management.

We are the second largest oil and gas producer in China in terms of 2017 production volume. In 2017, we reported total proved oil and gas reserves of 3,304 million boe and total oil and gas production of 525 million boe.

We are the largest refined oil products producer in the world, with an annual primary distillation capacity of 296.5 million tonnes as of December 31, 2017. We processed 240 million tonnes and 122 million tonnes of crude oil in 2017 and the six months ended June 30, 2018, respectively.

We have established a nationwide refined oil products distribution network comprising 30,645 service stations as of June 30, 2018, representing the largest station network in China and the second largest globally. In addition, we are the largest distributor of major refined oil products and various other refined oil products in China by volume.

We are the largest chemical products producer in China in terms of 2017 production volume, with ethylene, polypropylene, polyethylene and synthetic rubber production capacity and output that place us among the top global petrochemical companies. Our total ethylene production in 2017 and the first half of 2018 was 11.6 million tonnes and 5.8 million tonnes, representing approximately 63.7% and 63.3% of total domestic production, respectively.

We are one of the largest providers of refining and petrochemical engineering technical services in China measured by revenue in 2017. We leverage our refinery and ethylene unit design and construction capabilities and portfolio of patented technologies to complete large-scale refining and petrochemical construction projects. We are committed to becoming a best-in-class global technology and service provider.

We also operate the leading crude oil trading business in China and have consistently been the leading crude oil trading company by volume.

Our market-leading petroleum and petrochemical downstream businesses in China offer stable cash flow generation and growth potential.

As the largest refiner and chemical products supplier in China, we have an attractive business position in the downstream segments of China's expanding energy industry.

As China's economy continues to expand, we expect our strong downstream oil and gas businesses to perform well as economic growth tends to increase the overall demand for downstream oil and gas products. Because we have significant existing advantages in both the refinery and oil and gas products distribution segments, we expect that, as China further grows its economy and liberalizes its refined oil products and gas pricing mechanisms, we will also be well positioned to benefit from increasing cash flows and attractive levels of growth and profitability. In the refining and chemicals segments, our significant advantages include:

- ***Scale***. We had an annual primary distillation capacity of 296.5 million tonnes as of December 31, 2017. During the first half of 2018, we processed 122 million tonnes of crude oil. We have consistently accounted for over 40% of oil processed in China in recent years. Our aggregate production of gasoline, diesel, kerosene (including jet fuel) and other refined oil products, as well as ethylene and some other chemical products, is the largest in China by volume. We own a total of 15 ten-million-tonne refineries and 10 integrated refinery and petrochemical production facilities.

- ***Locations***. Most of our refineries and petrochemical plants are located in the eastern and southern regions of China, particularly in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta regions, where higher population levels and higher average family income support greater consumption of refined oil products. Our refineries are located in strategic locations close to our end-users and port facilities, thus reducing transportation costs as compared to our competitors.

- ***Advanced Technologies***. We have developed the capability to construct large-scale refining and petrochemical facilities using our proprietary technologies. We have also been increasingly seeking to develop our own proprietary high-sulfur, high-acid heavy crude oil processing techniques so that we can be adaptable to a wider selection of feedstock for our refineries and improve the economics of our refining business. Thanks to the advanced technologies, our refined oil products are of high standards. We believe our advances in this area represent the highest level of technology in use in this industry segment in China.

In the marketing and distribution segment, our significant advantages include:

- ***Broad Network***. We operate the largest retail distribution network in China as of June 30, 2018, comprising a network of 30,645 service stations nationwide. The number of our Easy Joy convenience stores, most of which are located in our service stations, reached 26,424 as of June 30, 2018.

- ***Strategic Locations***. A large percentage of our service stations are located in the eastern and southern parts of China where economies are more developed and vehicle ownership is higher. We also own a large number of stations in locations near expressway access points and transportation hubs with high transaction volume. Because of the strategic locations of our service stations, we achieved an annual average sales volume of 3,870 tonnes per station in the first half of 2018, increasing from 3,832 tonnes per station in the same period of 2017.

- ***Robust Distribution Infrastructure***. We operate a complex and far reaching refined oil products transmission and storage infrastructure network. Our refined oil pipelines in China connect 21 provinces and municipalities with a total length of over 14,000 kilometers. We also own significant refined oil product storage facilities in China with current total capacity of approximately 18.2 million cubic meters.

- ***Well-known Brands***. Our "Sinopec" brand was ranked the seventh most valuable brand in China in 2017, according to World Brand Lab. We also own and promote a range of well-recognized brands for our products and services. For example, our "Great Wall" lubricant oil brand embeds our industry-leading quality and technology and has been designated as the official lubricant oil for China's aerospace programs. According to World Brand Lab, in 2017, our "Great Wall" brand was also among the most valuable 500 brands in China.

We develop our operational excellence by reducing operating costs, adjusting production to market demands and improving efficiency and reliability.

As the world economy recovers, the market has seen a gradual rise in oil prices due to the growing demand from various regions and the fact that the supply side has been kept relatively in check. Riding on the current optimism of the market, we took advantage of our integrated business model, implemented measures to drive the growth of new resources while reducing our expenditures and continued to make structural adjustments and enhance efficiency.

In 2017, we have made reductions in our costs and expenditures. Our average lifting costs per barrel decreased by 1.3% compared to 2016. We also closely monitored and adjusted our feedstock structure and product sales portfolio in our refining and chemicals segments in response to changes in market demands. In the meantime, we took advantage of the low crude oil price to increase the margin of our refined oil products and chemicals. For example, we increased production of high value-added refined oil products, maintained stable refinery throughputs and further upgraded the quality of our refined oil products. The rapid development of our non-fuel businesses such as convenience stores, branded credit cards for use at our service stations and e-commerce devices is also a significant contribution to the growth of our downstream businesses. In 2016, we launched our online "supply chain-to-business" platform "EPEC", China's first e-commerce platform for the petrochemical sector. By the end of the first half of 2018, EPEC platform had approximately 50,900 registered enterprises and approximately 142,000 registered users, with products in approximately two million categories available for online sale. In the first half of 2018, EPEC platform had a total transaction amount of more than RMB 136.9 billion and a total on-line payment amount of more than RMB 48.9 billion.

We have prudent financial policies and an effective risk management system which contribute to our solid financial results.

We have prudent financial policies and are implementing centralized management of our financial and treasury functions to manage our financial resources and risks more effectively.

- ***Debt and Leverage Management***. As our business has expanded, we have increased our focus on managing leverage, including setting appropriate target leverage ratios and enhancing our debt maturities profile and currencies structure to reduce risk and diversify our financing channels.

- ***Treasury Management***. We operate a highly-centralized treasury management system which uses centrally controlled collections and payments and internal closed-end settlements and funding allocations with a goal to reducing our overall funding costs and improving our use of capital.

- ***Risk Management and Internal Controls***. We have established comprehensive risk management and internal control systems. The Risk Management Group and the Risk Management Office at the group level work closely with the various business units to enhance real-time risk identification, measurement, supervision and prevention in operations. Our internal control system extends across and through both company structures and business lines.

We believe our sustained attention to our financial policies and initiatives will help us to reduce our potential risks and maintain a prudent and stable financial profile as we expand globally. We maintained a total debt to total assets ratio of 20.8% and a total debt to total capitalization ratio of 29.9% as of June 30, 2018. For the calculation of total debt, see "Capitalization and Indebtedness" and note (3) to "Selected Financial Information."

We have an experienced management team with a strong corporate governance system and a high performance corporate culture.

Our Chairman and General Manager were appointed by the State Council, the highest level administrative body in the PRC government, and our other senior executives were also appointed through a rigorous selection process. Our senior management team consists of highly experienced and widely respected professionals with strong experience in the energy and chemical industries and extensive experience in exploration and production, refining, distribution and human resources management. Our Chairman, Mr. Dai Houliang, has over 30 years of experience in the oil and gas industry. Our major subsidiary Sinopec Corp. is a public company with its shares listed on the stock exchanges in Hong Kong, London, New York and Shanghai. It is the first Chinese company to have obtained a listing of its shares on four stock exchanges and, as a result, is subject to high international standards of corporate governance.

We are seeking to build a high performance corporate culture based on the principles of unity, entrepreneurship and diligence. Our internal management policies are geared toward promoting innovation, teamwork and risk prevention. Our business philosophy is founded on integrity and trustworthiness. We give high priority to the well-being of our employees to enhance cohesion and loyalty and promote the sustainable development of our businesses and companies.

Strategy

Our business objective is to build a world leading energy and chemical company which is highly responsible, respected and well regarded in its fields. To realize this goal, we seek to implement the following strategies:

Reinforce the advantages of our integrated business model with a value-oriented approach

We intend to reinforce the advantages that come from being an integrated petroleum and petrochemical company. We will balance the development and investment across the upstream, midstream and downstream businesses with a focus on value creation. Since we have a long value chain from oil and gas production, refining, further down to basic chemicals and specialty chemicals production and marketing and distribution of refined oil products, we will selectively increase or decrease the production of certain products according to market conditions and industrial trends. We will continue to grow our oil and petrochemical engineering technical services segment as a separate business and at the same time benefit from the synergies resulted from integrated technological advancement to support our upstream and downstream production businesses.

Continue to stimulate the momentum of our operations through innovation

We plan to continue to stimulate the momentum of our operations by encouraging innovation in technologies, management, product and service development and business models with an aim to make further growth through improved systems and policies. We will focus on developing technology to lower our costs and produce high value-added, high performance products. We believe our proprietary technologies combined with our strong research and development capabilities will support us to implement such a strategy. In addition, we will actively explore new business models and selectively develop market segments with strong market supply and demand dynamics and potentially attractive margins. For example, we have established operating units to develop and sell high-quality lubricant oil and vessel lubricant because of high demand for and limited supply of such products in China. Furthermore, we intend to further diversify the types of our services to benefit our customers with services that are differentiated from our competitors, and shift the focus of our value creation model from manufacturing to innovation and services.

Improve our operational and financial efficiencies through optimizing resource allocation

As an integrated petroleum and petrochemical company, we have been benefitting from resource sharing along the petroleum and petrochemical business chain. We will continue to take advantage of the synergies between our petroleum and petrochemical businesses and optimize the allocation of our resources, including operational networks, marketing channels, financial, human and information resources, throughout the Company and our businesses. We will continue to focus on quality and efficiency and strengthen our dominant position in the downstream businesses and to enhance profitability. We plan to further optimize our feedstock structure, enhance the differentiation of chemical products and materials and focus our product development on consumer needs, all with a view to continuing to provide our large client base with industry-leading products and services. In addition, we will continue to improve the operational and marketing channels for our oil products, consolidate the development of the end-market for our products and enhance end-market penetration by opening more service stations. Through these policies we seek to further increase our market share, increase the overall scale of our businesses and improve profitability along our business value chain.

Increase our cooperation with reputable partners

Leveraging an established international presence, we will continue to invite and cooperate with reputable partners to enhance and broaden our operating expertise and mitigate operational risks. In March 2015, we have attracted over RMB 105 billion investment in Sinopec Marketing from 25 domestic and foreign investors, which brought us not only financial resources but also business opportunities across various sectors. In 2016, we took our indirectly wholly-owned subsidiary Sichuan Pipeline Company, as the platform to introduce capital and attracted RMB 22.8 billion investments from China Life Insurance Co., Ltd. and SDIC Communications Holding Co., Ltd. In 2016, we entered into strategic co-operations with the governments of Shaanxi Province and Chongqing Municipality and China Post Group Co., Ltd., respectively, to cooperate in a number of areas across our upstream and downstream businesses as well as our non-fuel business. In April 2017, we entered into a strategic cooperation framework agreement and a purchase and sale agreement of natural gas with China Huadian Corporation to enhance energy cooperation between the parties. We also intend to capture the strategic opportunities arising from the One Belt and One Road Initiative to actively participate in overseas oil and gas exploration and production, refining and chemical operation and trading, with a view to improving our international operation and management excellence. In December 2015, Sinopec Corp. completed its investment in SIBUR, Russia's largest gas processing and petrochemicals company, as a strategic investor. This partnership will help us diversify and secure our long-term sourcing of refined oil products. In January 2016, the Yanbu refinery project in Saudi Arabia was officially on stream and inaugurated and we entered into a strategic cooperation framework agreement with Saudi Arabian Oil Company. The Yanbu refinery project is our first overseas refinery project with a designed processing capability of 400 thousand barrels per day, operating by Yanbu Aramco Sinopec Refining Company (YASREF) Limited. Such expansion will include developing and implementing management concepts and systems that meet world class standards and attracting top international talents, and will contribute to realizing our strategy of establishing Sinopec as a global brand.

Emphasize low-carbon consumption and sustainable development

As a state-owned limited liability company, we see ourselves as a corporate citizen that is charged with the social responsibility to promote sustainable economic development. We support the PRC government's programs in promoting low-carbon consumption. In addition to accelerating the development of our natural gas assets, we are actively exploring alternative sources of energy including unconventional oil and gas resources such as CSG, shale gas, shale oil and bio-energy such as bio-diesel, bio-coal and bio-jet fuel. We continue to promote energy saving and emissions reduction as well as low-carbon production at all of our production facilities. As one of the largest employers in China, we have comprehensive programs across all of our operating units and segments to promote the efficient use of energy.

Recognizing that the petrochemical business entails inherent environmental risks, we will continue to emphasize the importance of environmental protection in all of our operations. We strictly implement health, safety and environmental measures across our entire supply chain and operations.

Recent Developments

On June 15, 2018, Sinopec Corp. announced the Company's proposal to issue Exchangeable Corporate Bonds exchangeable into part of the A shares of Sinopec Corp. held by the Company. The Company proposed to issue Exchangeable Corporate Bonds in installments with a term not exceeding five years and proceeds not exceeding RMB 50 billion. Subject to the fulfillment of conditions to exchange, the holders of Exchangeable Corporate Bonds will be entitled to exchange their Exchangeable Corporate Bonds into A shares of Sinopec Corp. within the exchange period of Exchangeable Corporate Bonds. The issuance of Exchangeable Corporate Bonds has been approved by the SASAC and the CSRC. The final plan for the issuance of Exchangeable Corporate Bonds will be determined based on market conditions after obtaining above-mentioned approval.

On August 9, 2018, the Company notified Sinopec Corp. of the Gratuitous Transfer of 1,241,721,854 A shares the Company holds in the share capital of Sinopec Corp. to each of Chengtong Financial Control and Guoxin Investment. Immediately upon completion of the

Gratuitous Transfer, the total share capital of Sinopec Corp. will remain unchanged and the number of A Shares in the share capital of Sinopec Corp. directly held by the Company, Chengtong Financial Control and Guoxin Investment will be 83,309,227,393, 1,241,721,854 and 1,241,721,854 respectively and representing 68.81%, 1.03% and 1.03% of the total share capital of Sinopec Corp. respectively. The Gratuitous Transfer would not cause any change to the controlling shareholder or the ultimate controller of Sinopec Corp.

On September 3, 2018, the Company announced the proposed issuance of domestic corporate bonds with an aggregate amount of up to RMB 5 billion. Completion of the issuance is expected to occur on September 6, 2018.

Exploration and Production

Overview

We are China's second largest oil and gas producer based on production volumes in 2017. In recent years, we have successfully expanded our exploration and production segment by leveraging our domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. Globally, we had 3,304 million boe of proved reserves of crude oil and natural gas, including 1,935 million barrels of crude oil and 8,214 bcf of natural gas as of December 31, 2017. In 2017 and the six months ended June 30, 2018, our production of crude oil and natural gas was 525 and 262 million boe, respectively.

Our domestic exploration and production activities are mainly conducted through Sinopec Corp. We have implemented a clear strategy with respect to our domestic resources. We have been maintaining a stable output from our oil and gas fields in the eastern region, expanding production from western areas, accelerating development of natural gas in the southern region, advancing offshore exploration and production and achieving breakthroughs in the development of unconventional resources such as coal-bed methane, shale oil and gas. We have been striving to utilize advanced technology to further develop our upstream business. In China, we had 2,425 million boe of proved reserves of crude oil and natural gas, including 1,261 million barrels of crude oil and 6,985 bcf of natural gas as of December 31, 2017.

We have historically conducted our overseas exploration and production activities mainly through SIPC. As a result of the SIPC Restructuring, we no longer treat SIPC as our consolidated subsidiary. The day-to-day management and operation of SIPC has been handed over to its newly established board of directors while we continue to provide advice and guidance on its operation through the two directors appointed by us. Consequently, our estimated proved reserves and production of crude oil and natural gas as of and for the years ended December 31, 2015, 2016 and 2017 only include a share of the estimated proved reserves and production of SIPC reflecting our percentage of equity interest in SIPC. In the first half of 2018, our overseas crude oil and gas production was 59 million boe, accounting for 22.7% of our total crude oil and gas production. As of December 31, 2017, our overseas proved crude oil and natural gas reserves amounted to 879 million boe, accounting for 26.6% of our total crude oil and natural gas reserves.

Exploration and Development Activities

During the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we made progress with our key exploration and development projects in Shengli, Tahe, Daniudi, Yuanba gas field and Fuling shale gas field, and our Hangjinqi gas field started production. We had new breakthroughs in our exploration of oil and gas in the Xinjiang Tahe Basin, the Sichuan Basin, Beibu Gulf of the South China Sea, the Ordos Basin, the Tarim Basin, the Junggar Basin, Yin'e Basin, Shengli Oil Field and the North Jiangsu Basin. We made a number of technological breakthroughs in our exploration of the Fuling marine-facies shale gas field. In 2017, the Fuling shale gas field reached an annual production capacity of 10 billion cubic meters. We made two-dimensional seismic exploration of 2,028 and 400kilometers, three-dimensional seismic exploration of 6,383 and 2,167 square kilometers, and drill footage of 118 and 30 kilometers, respectively, in 2017 and the first half of 2018.

We continued to increase our domestic crude oil production through an enhanced oil recovery rate. We have stabilized our crude oil output in eastern China, increased crude oil output in western China and continued our accelerated development in blocks in southern China. We made rapid progress in research and experimentation in relation to staged fracturing of horizontal wells. We kept rapid growth in natural gas development. We developed most of our natural gas in Sichuan Basin and Erdos Basin and improved our production capacity. In 2017, our production capacity of conventional natural gas increased by 1.5 billion cubic meters per annum and our production capacity of shale gas increased by 3.0 billion cubic meters per annum.

Oil and Natural Gas Reserves

As of December 31, 2017, our estimated proved reserves of crude oil and natural gas were 3,304 million million boe, including 1,935 million barrels of crude oil and 8,214 bcf of natural gas, representing a decrease of 0.71% from December 31, 2016. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical.

The following table sets forth our estimated proved reserves of crude oil and natural gas as of December 31, 2015, 2016 and 2017, respectively.

	Crude Oil	Natural Gas	Combined
	(million barrels)	(billion cubic feet)	(million boe)
Proved reserves			
As of December 31, 2015			
Total	2,673	8,740	4,130
PRC	1,902	7,551	3,161
Overseas	771	1,189	970
Sinopec Corp.	341	19	344
SIPC[(1)]	430	1,170	625
As of December 31, 2016			
Total	1,920	8,446	3,328
PRC	1,216	7,160	2,409
Overseas	704	1,286	918
Sinopec Corp.	336	18	339
SIPC[(1)]	368	1,268	579
As of December 31, 2017			
Total	1,935	8,214	3,304
PRC	1,261	6,985	2,425
Overseas	674	1,229	879
Sinopec Corp.	338	12	340
SIPC[(1)]	336	1217	539

(1) Represents 30% of the estimated proved reserves of SIPC due to the capital restructuring of SIPC.

We manage our domestic reserves estimation internally, and SIPC manages most of our overseas reserves estimation, both with support from external technical experts. Please refer to the section in this offering memorandum entitled "Presentation of Information — Oil and Gas Reserves" for further information.

Oil and Gas Fields

PRC

We currently operate 12 oil and gas operating units managing our oil and gas fields across China, each of which consists of many oil and gas producing blocks. As of June 30, 2018, the total acreage of our oil and gas producing fields and blocks in China was 8134.46 square kilometers, including 5671.85 square kilometers of developed acreage, all of which were net developed acreage; and 2728.93 square kilometers of gross undeveloped acreage, all of which were net undeveloped acreage.

Shengli production field is our most important crude oil production field in China. As of December 31, 2017, it consisted of 75 producing blocks of various sizes extending over an area of 2,559 square kilometers in northern Shandong province, all of which are our net developed acreage. Most of Shengli's blocks are located in the Jiyang trough with various oil producing layers. In the first half of 2018, Shengli production field produced 82.5 million barrels of crude oil and 8.3 billion cubic feet of natural gas, with an average daily production of 466 thousand boe, accounting for approximately 32% of our total crude oil and natural gas production for the six months period.

Northwest oilfield is our second largest oilfield, which has an output exceeding 27.7 million boe in the first half of 2018. It is the first large paleozoic marine oilfields with up to hundred-million tonnes and one of the top ten onshore fields in China.

Puguang gas field is the largest and richest unitized marine-based carbonate gas field discovered in China. It is also the source for the nation's gas transmission project from Sichuan to the eastern regions. Its proved developed gas reserves were 2.1 trillion cubic feet as of December 31, 2017. Its production for the first half of 2018 was 112.2 billion cubic feet.

Yuanba gas field is the deepest buried marine-based gas field in China. Its purified gas production capacity was 3.4 billion cubic meters per year. In 2014, we commenced construction of LNG wharfs in Shandong, Guangxi and Tianjin, each with an annual capacity of 3 million tonnes. The two projects in Shandong and Guangxi were completed in 2014 and 2016, respectively. The project in Tianjin, with an annual unloading capacity of 3 million tonnes, was completed and operational in early 2018.

Overseas

Our overseas oil and gas properties are mainly held by SIPC and Sinopec International Petroleum E&P Hongkong Overseas Limited ("SIPOL"), a joint venture owned by Sinopec Corp. and SIPC on an equal basis, respectively. SIPC's overseas oil and gas production fields and blocks are located in 26 countries in six international regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific. SIPOL has a 50% interest in

Kazakhstan-based Caspian Investment Resources Ltd., 49% interest in Russia-based OAO Udmurt Oil Company, and 50% interest in Colombia-based Mansarovar Energy Colombia Ltd. In addition to the oil and gas properties in which SIPC or SIPOL holds an interest, Sinopec Corp. also holds a 27.5% interest in Angola Block 18.

Oil and Natural Gas Production

The following tables set forth our average daily production of crude oil and natural gas sold for the periods indicated. The production of crude oil includes condensed oil.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	**2016**	**2017**	**2017**	**2018**
Crude oil production					
Daily production (thousand barrels)	1,133	992	970	970	953
Total production (million barrels)	414	363	355	176	173
Sinopec Corp.	349	304	294	146	144
SIPC(1)	64	60	61	30	29
Average realized sales price (US$ per barrel) (2)	45.1	36.8	48.8	47.5	63.3
Natural gas production					
Daily production (mmcf)	2,272	2,392	2,802	2,822	3,175
Total production (bcf)	829	875	1,025	511	535
Sinopec Corp.	735	766	905	452	476
SIPC(1)	94	109	120	59	59
Average realized sales price (US$ per kcf) (2)	6.9	5.4	5.4	5.3	6.1
Total crude oil and natural gas production					
Daily production (thousand boe)	1,513	1,391	1,435	1,441	1,447
Total production (million boe)	552	509	525	261	262
PRC	418	381	400	198	203
Overseas	134	128	125	63	59
Sinopec Corp.	54	50	45	23	20
SIPC(1)	80	78	77	39	39

(1) Represents 30% of SIPC's production due to the capital restructuring of SIPC.

(2) Represents only the average realized sales price of Sinopec Corp. due to the capital restructuring of SIPC.

New Energy Development

The development and utilization of new energy play an increasingly important role in optimizing energy resources, coping with energy and environment challenges and achieving sustainable development. We are exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, coalbed methane, LNG, geothermal heating, solar photovoltaics and other unconventional energies. For example, we launched the South Yanchuan coalbed methane project in 2013. By the end of June 2018, our geothermal heating scope has expanded to 19 municipalities and regions in China, with geothermal heating capacity reaching 42.3 million square meters and accounting for 40% of China's conventional geothermal heating. In the past two years, by utilizing our world-leading fracturing and fast drilling technologies, we made significant progress in the exploration and development of our, and China's, first shale gas field in Fuling, and had new discovery of shale gas in Yongchuan, each of which is located in the Sichuan Basin. We made a number of technological breakthroughs and achieved satisfactory development results, allowing us to commence commercial production in our Fuling shale gas field ahead of schedule, and made China the third country in the world to commence commercial production of shale gas. In 2017, the Fuling shale gas field reached an annual production capacity of 10 billion cubic meters. We were awarded the "Shale Oil and Gas International Pioneer Award" by International Gas Union and American Gas Association in 2014.

We also seek to gain access to new technology and operational expertise with regard to unconventional resources through international partnerships and acquisitions. In June 2013, SIPC acquired a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US$1 billion from Chesapeake Energy. In July 2014, SIPC acquired from PETRONAS a 10% equity interest in the Pacific NorthWest LNG project located on Canada's west coast near Prince Rupert, British Columbia.

Refining

Overview

In 2015, 2016, 2017 and the six months ended June 30, 2018, our refinery throughputs were approximately 238 million tonnes, 237 million tonnes, 240 million tonnes and 122 million tonnes, respectively, representing a market share of approximately 45.7%, 43.9%, 42.3% and 40.6% of the total crude oil processed in China for 2015, 2016, 2017 and the six months ended June 30, 2018, respectively. We produce a full range of refined oil products. In 2015, we developed the integrated technology of catalytic hydrogenation of light oil (IHCC), and realized industrial conversion of catalyzed diesel and high-octane gasoline, which ensured the optimization of our product structure and the upgrade of the quality of our produced refined oil. We built a pilot plant in China to produce bio-jet fuel using vegetable oils as feedstock in 2011 and our bio-jet fuel was successfully used in trial commercial flights in 2015, resulting in us receiving the first license to produce bio-jet fuel in China. Further improved technologies allow us increase our production of high value-added and high grade refined oil products. The gasoline and diesel we produced and distributed have met the highest national standard.

The following table sets forth the production of our principal refined oil products for periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in million tonnes)				
Gasoline	54.0	56.4	57.0	28.4	30.0
Diesel	70.1	67.3	66.8	32.7	32.1
Kerosene (including jet fuel) . . .	24.4	25.5	26.9	13.0	14.2
Light chemical feedstock	38.8	39.1	39.0	19.1	19.6
Lubricant	1.0	1.1	1.1	0.5	0.5
Liquefied petroleum gas	13.1	14.2	14.3	7.2	7.6
Fuel oil	2.3	1.6	1.5	0.7	0.9

Gasoline and diesel are our largest revenue producing products, and are sold mostly through our marketing and distribution segment through both wholesale and retail channels. We use most of our production of chemical feedstock for our own chemical operations. Most of our refined oil products was sold domestically to a wide variety of industrial and agricultural customers, with the remaining amount exported.

On January 13, 2016, the NDRC promulgated the Notice of Further Improving the Price Formation Mechanism of Refined Oil (*Fa Gai Jia Ge [2016] No.64*). The notice provides that, if the price of the crude oil in the international oil markets which the domestic refined oil products prices is related to is less than 40 dollars per barrel, then the domestic refined oil products prices will not be adjusted. The notice also provides for the establishment of a risk reserve for refined oil price adjustments and relaxing control over the ex-works prices of liquefied petroleum gas.

Refining Facilities

Currently we operate 31 refineries in China and have invested in one refinery overseas. Our refineries in China are mainly located in China's coastal regions, including the Bohai Rim cluster, the Yangtze River Delta cluster and the Pan-Pearl River Delta cluster, which have more developed economies, higher population densities and larger numbers of oil product consumers than the other regions of China. The strategic locations of our coastal refineries also reduce the transportation costs on shipments from the crude oil import markets. We have also been increasingly seeking to develop our own proprietary high-sulfur, high-acid heavy crude oil processing techniques, which we believe represent the most advanced technology in use in China.

As of December 31, 2017, our total primary distillation capacity in China was 296.5 million tonnes per annum. In line with the global oil and gas industry's focus on large-scale, base-load and integrated refinery developments, our refineries have an average capacity of 8.6 million tonnes, significantly higher than the average capacity of any stand-alone refinery in the world and in China. As of June 30, 2018, 15 of our refineries in China reached a primary distillation capacity of ten million tonnes or more per annum, while our largest refinery, Maoming refinery, had a primary distillation capacity of 23.5 million tonnes per annum. In addition, we own ten integrated refining and chemical production facilities. Our refinery throughputs were 238.3 million tonnes, 237.3 million tonnes, 241.9 million tonnes and 121.7 million tonnes for the years ended December 31, 2015, 2016 and 2017 and for the six months ended June 30, 2018, respectively. We are planning to build four world-class refining and chemical bases in Maozhan, Zhenhai, Shanghai and Nanjing by 2020, with the aim to further enhance our competitiveness.

The following table sets forth our total primary distillation capacity per annum of crude oil and refinery throughputs as of and for the periods indicated.

	As of and for the Year Ended December 31,		
	2015	**2016**	**2017**
		(in million tonnes)	
Primary distillation capacity per annum[(1)]	293.2	294.7	296.5
Refinery throughputs	238.3	237.3	241.9

(1) These numbers reflect the actual distillation capacity and refinery throughputs of our joint ventures, without regarding our ownership therein.

For the years ended December 31, 2015, 2016, 2017 and the six months ended June 30, 2018, our overall yield for all refined oil products at our refineries remained at approximately 95%.

Sources of Crude Oil

Crude oil is our most important raw material. The following table sets forth the sources of our crude oil supply for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in million tonnes)				
Source of Supply					
Self-supply in China	30.6	23.3	22.9	11.3	11.6
PetroChina Company Ltd.	4.5	1.0	1.2	0.5	0.3
CNOOC Ltd	4.3	2.6	0.9	0.4	0.1
Import	198.8	205.9	210.73	104.4	107.8
Total	238.3	237.3	240.1	118.4	121.7

Chemicals

Overview

We are the largest chemicals producer in China measured by production. We produce a full range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fibers, synthetic rubber and chemical fertilizers. As a result of our continuing efforts in enhancing products differentiation, we have been able to produce more high value-added and high performance products. In 2017, we further implemented the adjustment to our production structure and feedstock composition to increase the margin on our various products. We also realized industrial utilization of the complete technology of gas-liquid fluidized bed polyethylene, and developed optical film-grade polyethylene and styrene butadiene rubber for high-performance tires, which ensured our production of high-end products. In the first half of 2018, over 64 % of synthetic resins and over 90.3% of synthetic fibers we produced were among those high-end products, many of which were specifically customized to the needs of our customers.

Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of other chemical products. Our chemicals operations are integrated with our refining businesses, which supply a significant portion of our chemical feedstock such as naphtha. Our total sales volume of chemical products was 63 million tonnes, 70 million tonnes, 79 million tonnes and 45 million tonnes, in 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively. Because of the strong domestic demand, most of our chemical products are sold in China's domestic market. In December 2015, Sinopec Corp. completed its investment in SIBUR, Russia's largest gas processing and petrochemicals company, as a strategic investor. We believe that this partnership will help to diversify and secure our long-term sourcing of refined oil products.

Products

Intermediate petrochemicals

We are the largest ethylene producer in China. We have developed our proprietary technology to design and construct one-million tpa ethylene production facilities which we believe are among the most technologically advanced ethylene production facilities in the world. We continue optimizing our feedstock structure by the full utilization of refinery by-product gas, heavy vacuum gas oil and other resources as feedstock. The amount of naphtha used in our total feedstock for the production of ethylene was maintained at a low percentage. We produced approximately 11.1 million tonnes, 11.1 million tonnes, 11.6 million tonnes, and 5.8 million tonnes of ethylene, representing a market share of 64.8%, 62.1%, 63.7% and 63.3% with respect to domestic ethylene production for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively. Nearly all of our ethylene produced are used as feedstock for our chemicals production.

We produce aromatics mainly in the forms of benzene and para-xylene, which are used primarily as feedstock for purified terephthalic acid, the preferred raw material for polyester. We are the largest aromatics producer in China.

Organic chemicals extracted mainly from olefins and aromatics are intermediate petrochemicals and are essential raw materials for synthetic resins, synthetic rubber and synthetic fibers. We are the largest producer of styrene, paraxylene, vinyl acetate, phenol and acetone in China.

The following table sets forth our production volume for each of our principal intermediate petrochemical products for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in thousand tonnes)				
Ethylene	11,118	11,059	11,609	5,609	5,786
Propylene	9,263	9,080	9,479	4,661	4,873
Total	20,381	20,139	21,088	10,270	10,659

Synthetic resins

We are the largest producer of polyethylene, polypropylene and supplier of major synthetic resins products in China.

The following table sets forth our production volumes for each of our principal synthetic resins for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in thousand tonnes)				
Polyethylene	7,333	7,272	7,486	3,632	3,727
Polypropylene	6,517	6,581	7,163	3,510	3,733
Polyvinyl chloride	226	231	203	87	115
Polystyrene	585	588	629	314	316
Others	817	793	734	378	341
Total	15,478	15,465	16,215	7,921	8,232

Synthetic fiber monomers and polymers

Our principal synthetic fiber monomers and polymers are purified teraphthalic acid, ethylene glycol, acrylonitrile, caprolactam, polyester, polyethylene glycol and polyamide fiber. Based on our 2017 production volume, we are the largest producer of purified teraphthalic acid, ethylene glycol and caprolactam in China. Most of our production of synthetic fiber monomers and polymers are used as feedstock for synthetic fibers.

The following table sets forth our production volume for each of our principal synthetic fiber monomers and polymers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in thousand tonnes)				
Purified teraphthalic acid	2,267	2,494	2,248	1,143	920
Ethylene glycol	2,553	2,432	2,690	1,302	1,386
Acrylonitrile	990	952	979	495	460
Caprolactam	488	557	589	275	360
Polyester	2,556	2,699	2,722	1,339	1,362
Others	348	369	456	231	231
Total	9,202	9,503	9,684	4,785	4,719

Synthetic fibers

Our principal synthetic fiber products are polyester fiber and acrylic fiber.

The following table sets forth our production volume for each of our principal synthetic fibers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in thousand tonnes)				
Polyester fiber	1,008	1,004	1,006	494	503
Acrylic fiber	270	233	208	119	100
Others	18	24	26	14	11
Total	1,296	1,260	1,240	627	614

Synthetic rubbers

Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber ("SBR"), styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber ("IIR"). Based on our production in 2017, we are the largest producer of SBR and cis-polybutadiene rubber.

The following table sets forth our production volume for each of our principal synthetic rubbers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in thousand tonnes)				
Cis-polybutadiene rubber	392	359	363	156	215
Styrene butadiene rubber	373	358	317	165	88
Isobulylene isoprene rubber	14	12	13	10	15
Others	372	389	408	194	232
Total	1,151	1,119	1,101	525	550

Chemical fertilizers

We produce synthetic ammonia and nitrogen. Our synthetic ammonia is used to manufacture urea, caprolactam and acrylic nitrile.

The following table sets forth our production volume for each of our principal chemical fertilizers for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
	(in thousand tonnes)				
Synthetic ammonia	969	1,150	1,101	560	510
Nitrogen	161	181	183	89	95
Total	1,130	1,331	1,284	649	605

Marketing and Sales of Chemical Products

The price and sales volume of chemical products are primarily market driven. The southern and eastern regions in China, where most of our chemical plants are located, constitute the major chemical market in China. Our proximity to the major chemical market gives us a geographic advantage over our competitors.

Our principal sales and distribution channels consist of direct sales to end-users, most of which are large and medium-sized manufacturing enterprises, and sales to distributors in our national sales network. In 2016, we established our e-commerce platform “Chem e-Mall”, our proprietary online distribution channel of chemical products, which is an effective complement to our traditional sales channels. We had 7,976 customers registered with Chem e-Mall platform as of June 30, 2018, as compared to 4,895 customers as of December 31, 2017. In the first half of 2018, Chem e-Mall platform had a total transaction volume of approximately 249.5 thousand tonnes and a total transaction amount of approximately RMB 18.5 billion. We also provided after-sale services to our customers, including technical support. For example, we set up the customer service hotline 95388 to fairly address customer complaints and to consistently improve customer satisfaction. We continuously strive to improve our product mix and enhance our product quality to meet market needs.

Marketing and Distribution

Overview

We operate the largest sales and distribution network for refined oil products in China. The total amount of gasoline, diesel and kerosene (including jet fuel) that we distributed and sold in China was 171.4 million tonnes, 172.7 million tonnes, 177.8 million tonnes and 88.5 million tonnes in 2015, 2016, 2017 and the first half of 2018, respectively, representing a market share of approximately 62.1%, 59.7%, 58.0% and 55.9% of refined oil products distributed and sold in China, respectively. Most of the refined oil products sold by us are produced internally.

In 2015, 2016 and 2017 and the six months ended June 30, 2018, we sold approximately 119 million tonnes, 120 million tonnes, 122 million tonnes and 59 million tonnes of gasoline, diesel and kerosene (including jet fuel) in China, respectively, through our retail network, representing approximately 69.5%, 69.6%, 68.4% and 67.0% of the total gasoline, diesel and kerosene (including jet fuel) sales volume in China for 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

- We have a dominant position in the oil and gas fueling market in China.
- We have expanded our CNG business by leveraging our extensive service station network.
- We have over 14,000 kilometers of refined oil pipelines in China, which cover 21 provinces and municipalities and are directly connected to 22 large-scale refineries.
- We have 18.2 million cubic meters of refined oil product storage capacity.
- We have issued a total of 132 million loyalty fuel cards which can be used in over 30,000 of our service stations.

- The Great Wall lubricant oil is one of our high-tech and premium quality signature products. It was named as the designated oil in the Beijing Olympic Games 2008, enhancing our brand name.

The table below sets forth a summary of key data in the marketing and sales of refined oil products for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2015	2016	2017	2017	2018
Total sales volume of refined oil products (in million tonnes)	189.3	194.8	198.8	98.6	96.5
Sales volume of refined oil products in China (in million tonnes)	171.4	172.7	177.8	87.2	88.5
Of which: Retail	119.0	120.1	121.6	58.7	59.3
Direct Sales and wholesale	52.3	52.6	56.2	28.5	29.2
Average annual throughput of service stations (in tonnes per station)	3,896	3,926	3,969	3,832	3,870

	Year Ended December 31,			Six Months Ended June 30,
	2015	2016	2017	2018
Total number of service stations under Sinopec brand	30,560	30,603	30,633	30,645
Of which: Self-operated service stations	30,547	30,597	30,627	30,639
Franchised service stations	13	6	6	6

On February 19, 2014, the board of directors of Sinopec Corp. unanimously approved a proposal to restructure Sinopec Corp.'s marketing and distribution business segment by selling up to 30% of the segment's ownership to social and private investors. The proposed restructuring reflects a part of the PRC government-driven reforms to introduce more private investment into state-owned enterprises. Valuation of the marketing and distribution business segment was determined based on its audited financial statements and other factors. By April 2014, Sinopec Corp. had injected its assets in the marketing and distribution segment into Sinopec Marketing, a wholly-owned subsidiary of Sinopec Corp. On September 12, 2014, Sinopec Marketing entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors agreed to subscribe for certain equity interest in Sinopec Marketing. As of March 6, 2015, the 25 investors had made an aggregate capital contribution of RMB 105.04 billion to Sinopec Marketing. These investors include affiliates of Bank of China, ICBC Credit Suisse Asset Management, China Cinda Asset Management, China International Capital Corporation, China Pacific Insurance Group, China Life Insurance Company, Sino Life Insurance, Haier Electronics, ENN Energy Holdings, China Asset Management, Harvest Fund Management, RRJ Capital, Fosun International, Hopu Investment and Tencent. By forming strategic alliances with these investors, we plan to expand our non-fuel businesses into industries such as insurance, logistics, medicine, online-to-offline services and mobile payment, and transform ourselves from a petrochemical product provider to a full service provider. In June 2017, the shareholders of Sinopec Corp. passed the resolutions in relation to the plan of overseas listing of Sinopec Marketing at the annual general meeting for 2016. See "Our History and Corporate Structure."

Retail

In 2015, 2016 and 2017 and the six months ended June 30, 2018, we sold approximately 119.0 million tonnes, 120.1 million tonnes, 121.6 million tonnes and 59.3 million tonnes of gasoline, diesel and kerosene (including jet fuel) in China, respectively, through our retail network, representing approximately 69.5%, 69.6%, 68.4% and 67.0% of the total gasoline, diesel and kerosene (including jet fuel) sales volume in China for 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively. In the first half of 2018, we proactively promoted our vehicle natural gas business by expanding our network of CNG/LNG stations, and our vehicle natural gas sales volume increased by 25.3% compared to the same period of 2017. We have also increased the sales volume of the high-grade gasoline through our retail network.

All of our retail sales are made through a network of service stations and petroleum shops operated under the "Sinopec" brand. As of June 30, 2018, we had a total of 30,645 service stations, far exceeding our domestic competitors. Through this unified network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently deploy our retail network.

Though we franchise the Sinopec brand to third-party service stations, service stations that are operated by us account for over 99.9 % of the Sinopec-branded service stations. The locations and brand advantages of our service stations are increasingly being evident, with rising throughput per station enhancing profitability of our retail business. The average annual throughput per station for 2015, 2016 and 2017 and the six months ended June 30, 2018 was 3,896 tonnes, 3,926 tonnes, 3,969 tonnes and 3,870 tonnes, respectively.

Our strong retail network provides extensive geographic coverage of retail sales across China. We continue optimizing the coverage of and accelerating the development of retail outlets, especially service stations in expressway service areas, urban centers, new urban areas, transportation hubs and other key locations. Our retail network occupies a dominant position in China's eastern and southern regions, which consist of the more densely populated and economically developed provinces in China. As of June 30, 2018, we had more than 1,000 service stations in each of 14 provinces, most of which are located in China's eastern and southern regions.

We have developed non-fuel businesses for our full-service stations to transform our network of traditional service stations into a comprehensive one-stop multifunctional integrated service platform that combines "fueling, shopping, dining and car services." The number of our Easy Joy convenience stores reached 26,424 as of June 30, 2018. The sales of our self-owned brands has increased rapidly in 2017. For example, the sales of our "Zhuoma Spring" brand drinking water and "Oulu" brand tissue paper reached RMB 1,007.8 million and RMB 716.3 million, respectively, in 2017. Our revenue from non-fuel businesses has grown rapidly from RMB 16.8 billion in 2015 to RMB 27.6 billion in 2017, representing a CAGR of 28.3%.

We are a leader in China in building self-service petrol stations. We are also a leader in China in promoting the use of pre-paid fuel cards to enhance our customer loyalty. As of June 30, 2018, we have issued 132 million loyalty fuel cards. We have worked with commercial banks, telecom companies and network payment service providers to enable our customers to make convenient prepayments on our fuel cards.

In addition, we have expanded our business into electric vehicles charging market by co-operating with our business partners, such as Beijing Electric Vehicle Co., Ltd., to integrate charging and power stations for electric vehicles into our service stations.

Direct Sales and Wholesale

In 2015, 2016 and 2017 and the six months ended June 30, 2018, we sold approximately 52.3 million tonnes, 52.6 million tonnes, 56.2 million tonnes and 29.2 million tonnes of major refined oil products in China, respectively, through direct sales and wholesale, representing approximately 30.5%, 30.4%, 31.6% and 33.0% of our total sales volume of major refined oil products in China for 2015, 2016 and 2017 and the six months ended June 30, 2018, respectively.

Our direct sales include sales to commercial customers such as industrial enterprises, hotels, restaurants and agricultural producers in China. Our wholesale sales include sales to large commercial or industrial customers and independent distributors as well as sales to certain long-term customers such as railway, airlines, shipping and public utilities. As of June 30, 2018, through our wholesale centers, we operate 354 storage facilities with a total capacity of approximately 18.2 million cubic meters, substantially all of which are wholly owned by us. Our wholesale centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own dedicated railways, oil wharfs and oil barges, as well as rail tankers and oil trucks.

Oil and Petrochemical Engineering Technical Services

Refining and Chemical Engineering Technical Services

We conduct our refining and chemical engineering technical services primarily through Sinopec Engineering. In May 2013, the H shares of Sinopec Engineering were successfully listed on the SEHK (stock code: 2386). We provide technical engineering services for refining and chemical businesses with a full range of services that include technology licensing, consulting, financing assistance, engineering, procurement, construction and pre-commissioning/start-up services.

In the first half of 2018, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US$0.5 billion and US$0.9 billion, respectively. In June 2017, the consortium of Sinopec Engineering and Maire Tecnimont SpA, an Italian company, signed an engineering, procurement and construction contract for the Package 3 of the project in relation to the 42 billion cubic meters per annum Amur Gas Processing Plant with Public Joint Stock Company Gazprom.

Some of our landmark projects in 2017 and the first half of 2018 included the Sinopec Group and Anhui Province Joint Coalification Complex Project, Zhongke Guangdong Integrated Project, Sinopec-KNPC Project, Sinopec-SABIC Project, the Sinochem Quanzhou Ethylene Project, Dongjiakou Crude Oil Commercial Reservation Base Project, Dalian Hengli Refining-chemical Integration Project, Zhejiang Petrochemical and Refining-chemical Integration Project , Kuwait Oil Refining Project, the Malaysia RAPID Oil Refining Project, as well as the FCC Project of Kazakhstan Atyrau Refinery.

Oil Engineering Technical Services

We conduct our oil engineering technical services primarily through Sinopec Oilfield Service. Our well-trained service teams are equipped with specialty techniques and skills to provide a number of oilfield services, including geophysical exploration, drilling, well logging, mud logging and downhole operations under various geologic and engineering conditions of land, including tidal zones, shallow water areas, mountains, plateaus, deserts and swamps. More than 200 oil and gas projects that we undertook in China have commenced production since 2010. We also actively explore overseas markets to expand our service reach. For example, we are regarded as a preferred drilling service provider by the oil and gas companies in Saudi Arabia and Kuwait. As of December 31, 2017, our engineering technical service teams provided services in 34 countries and regions outside China in relation to more than 319 oil engineering technical service contracts.

In the first half of 2018, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US$1.1 billion and US$1.8 billion, respectively.

Others

International Trade

Our international trade business primarily consists of the international trading activities of our subsidiary, China International United Petroleum & Chemical Co., Ltd. Major items that we import and export include crude oil, refined oil, petrochemicals and equipment and we have a global distribution plan for each product line. We were China's largest crude oil trading company in terms of annual crude oil import and export volume in 2017, with total crude oil trade volume reaching 364 million tonnes. In addition, we have increased our international trading activities for catalyzers and have enlisted major international oil companies as our customers.

Research and Development

Our research and development division comprises research and development institutes focusing on research and development in the upstream, refining and chemicals segments as well as production safety. The PRC government has granted us a special fund to support our research and development on technological innovation, energy conservation and emission reduction. With respect to exploration and production, we achieved significant breakthroughs in shale gas technologies in Fuling, our first shale gas field, and Yongchuan, each of which is located in the Sichuan Basin. We also made progress on our theoretical study and exploration technologies in relation to Ordovician petroleum accumulation system in the Tarim Basin. In addition, we further developed our high-end measurements-while-drilling tools, such as the high temperature MWD system that can withstand high temperature up to 175ºC. We also broadly promoted the high-efficient vibroseis acquisition technology and significantly improved the quality of seismic data. In 2016, our Yuanba natural gas purification technology was used on an industrial scale and our products applied with this technology could reach Class 1 natural gas standard.

With respect to the refining and chemicals segments, we continued to reinforce development of production technologies for clean products. For example, our fluidized bed resid hydrotreating demonstration devices achieved long-cycle stable operation, and our technologies for production of high-quality needle-like coke with low quality oil slurry was used on an industrial scale. To meet the market needs, we have developed new chemical products, including environment-friendly polypropylene resin with high stiffness and tenacity and a specialty resin used in high-performance medical spun-bond nonwoven fabrics. In addition, we commercialized (i) the looping process for PP production and a technology for rare-earth isoprene rubber; (ii) the integrated hydrogenation-FCC process for maximizing light oil products and high octane gasoline from catalytic diesel process, which will optimize our product mix and improve the quality of oil products; (iii) the method for producing low-carbon olefins by cracking petroleum hydrocarbon; and (iv) a number of technologies and products, including the gas-liquid polyethylene process, optical-film-grade polyester performance compounds, and styrene-butyl-rubber for high-performance tires, strongly facilitating the Company to produce high-value-added products. In addition, we realized industrial application of our syngas-to-ethylene glycol technology, double-hearth cracking furnace, selective hydrogenation of butadiene and other technologies.

With respect to new energy technologies, we built a pilot plant to produce bio-jet fuel using vegetable oils as feedstock. Our self-developed MTO technology is being commercialized. With the successful trial use of our self-developed bio-jet fuel in commercial flights in 2015, we received the first license to produce bio-jet fuel in China, and made China the fourth country in the world to have proprietary technologies to produce bio-jet fuel.

As of December 31, 2017, we owned more than 30,000 patents in China and overseas. One of our employees won the Top National Science and Technology Award in 2008. In 2017, two of our research and development projects were awarded the National Technological Invention Prize. In addition, three of our research and development projects won the China Technology Advancement Award, and 8 of our research and development projects won the China Patent Merit Award.

Property

We own land use rights, buildings, service stations and other properties across China. Our corporate headquarters are located at 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, PRC.

Employees

As of June 30, 2018, we had over 600,000 employees. Our employees participate in various basic social insurance plans organized by municipal and provincial governments whereby we are required to make monthly contributions to these plans at certain rates of the employees' salary as stipulated by relevant local regulations. Expenses incurred by us in connection with the retirement benefit plans were approximately RMB 5,815 million, RMB 5,984 million, RMB 6,975 million and RMB 2,841 million, respectively, for the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018.

Since 2009, we and our subsidiaries have not experienced any strikes, work stoppages, labor disputes or actions which adversely affected the operation of any of their respective businesses in all material aspects. We believe that we and our subsidiaries maintain good relationships with our and their respective employees in all material aspects.

Risk Management

We are exposed to a variety of risks associated with oil and gas and other business operations and financing activities. Our goal in risk management is to ensure that we understand, measure, monitor and mitigate the various risks that arise in connection with our operations. We have established an integrated risk management system through which we seek to manage the risks.

Policies and guidelines have been developed to identify, analyze, appraise and monitor the changing risks that we face. We have established a Risk Management Committee to supervise the overall risk management work. Under the Risk Management Committee, there is an Internal Control and Risk Management Department to formulate key internal control and risk management policies, design risk management systems, organize risk assessment work, provide training on risk control and management as well as oversee the implementation of the risk management policies of each of our departments and subsidiaries.

Crude Oil Resource and Sustainable Development Policy: We intend to proactively identify, monitor and manage crude oil supply risk to achieve sustainable development of our business operations. We pursue sustainability through increasing our crude oil supply, strengthening our resource base, acquiring unconventional resources, shaping an integrated value chain and developing cutting-edge technologies.

Debt Management Policy: We have centralized the financing management of our group entities and have diversified our financing sources to include international debt capital markets. Our total debt to total capitalization ratio and total debt/EBITDA ratio remained at approximately 29.9% and 1.9, respectively, as of June 30, 2018, which were consistent with our internal policies to maintain such ratios at a low level. We believe that such ratios will continue to remain at a reasonable level in the foreseeable future. We also endeavor to maintain reasonable debt maturities and currency structure. For the calculation of EBITDA, see note (1) to “Selected Financial Information.”

Working Capital Policy: We maintain sufficient cash flow to meet our payment needs. We also maintain a centralized management of funds in order to operate the cash pools of our group entities in an efficient manner.

Investment Policy: The key factors we take into consideration when making investment decisions include investment return, resources acquisition, synergy and integration with our existing key businesses, improvement of service and technical capabilities as well as the various investment risks involved. In addition, we have internal guidelines that specify the minimum return rates for each type of investment.

Health, Safety and Environmental Policy: We have developed a Health, Safety and Environmental (“HSE”) management system to strengthen accountability and adopt measures to target root causes rather than symptoms. In accordance with our HSE guideline and strategic goals, we provide HSE training throughout the entire organization, which covers the whole production process and everyone from top management to grassroots operators. We have also issued the Principles of HSE Management, outlining the basic requirements and behavior codes for all managers and organized annual HSE examination and ad hoc inspection to review HSE performance of key subsidiaries.

Legal Risk Management Policy: Our legal risk management system aims to identify and manage risk relating to the entering into and performance of contracts, risk relating to intellectual property rights, employment-related risk and other regulatory risks. The Legal Affairs Department is charged with direct responsibility to oversee and manage legal risk.

Insurance

Through our Safety Production Insurance Fund and other insurance arrangements, we have insurance coverage for our property, personnel, plant, equipment and certain assets that are subject to significant operating risks, third-party liability insurance against claims relating to personal injury, property and environmental damages that result from accidents and employer liabilities insurance. We believe that our insurance coverage is comparable to that of other companies engaged in similar businesses. Our oil and gas operations are subject to hazards and risks inherent in the trading, drilling and production of petroleum products. As protection against these operational risks, we maintain insurance coverage against most potential losses, including the loss of wells, as well as liabilities related to costs of pollution control and environmental compliance. Additionally, we purchase insurance to cover credit risks relating to our international trading business.

Intellectual Property

We rely on a variety of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position. In 2017, we applied for 5,876 patents in China and overseas, 3,640 of which were granted. As of December 31, 2017, we owned more than 30,000 patents in China and overseas, and the number of our owned patents ranks first among SOEs in China. We do not believe that any individual property right or related group of intellectual property rights is of such importance that its expiration or termination would materially affect our business.

Legal Proceedings

We and our subsidiaries are involved in certain legal proceedings concerning matters arising in the ordinary course of their business. We believe, based on currently available information, that these proceedings, individually or in the aggregate, will not have a material adverse effect on our results of operations or financial condition.

Environmental Matters

We are subject to various PRC national environmental laws and regulations and also environmental regulations promulgated by the local governments in whose jurisdictions we have operations. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. There are national and local standards applicable to emissions control, discharges to surface and subsurface water and disposal, and the generation, handling, storage, transportation, treatment and disposal of solid waste materials. The environmental regulations require us to register or file an environmental impact report with the relevant environmental bureau for approval before we undertake any construction of a new production facility or any major expansion or renovation of an existing production facility. The new facility or the expanded or renovated facility will not be permitted to operate unless the relevant environmental bureau has inspected to its satisfaction that the environmental equipment installed in the facility satisfies environmental requirements. Our Health, Safety and Environment Department is responsible for the management and monitoring of environmental matters directly.

We began the "Clear Water, Blue Sky" project in 2013. As of December 31, 2017, we had completed the project with a total earmarking investment of RMB 20.9 billion and implemented an aggregate of 870 environmental improvement measures. We have also constructed 34 waste water treatment plants and 36 waste gas treatment plants. In 2014, we launched the "Energy Efficiency

Doubling" initiative to further integrate our efforts in energy conservation, emissions control and carbon reduction, with a goal to double our energy efficiency by the end of 2025, to reduce our coal consumption by 42 million tonnes, and to reduce the emissions of carbon dioxide, sulfur dioxide and nitrogen oxides by 81 million tonnes, 150 thousand tonnes and 100 thousand tonnes, respectively.

We believe that our businesses are in compliance with currently applicable national, local and foreign environmental laws and regulations in all material aspects. In 2017, we have deployed a total of RMB 7.85 billion in fulfilling our environmental responsibility. In addition, with improved management of and supervision on our industrial water consumption level as well as enhanced efficiency in water recycling , our overall industrial water consumption has been reduced by 1.27% (1,200 cubic meter in terms of volume). During the years ended December 31, 2015, 2016 and 2017 and the six months ended June 30, 2018, we did not encounter any material issues relating to environmental matters and were not subject to any material administrative penalties due to any activities that may cause pollution to the environment.

SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

Overview

China's petroleum and petrochemical industry has seen significant liberalization in the past ten years. However, the exploration, production, marketing and distribution of crude oil and natural gas, as well as the production, marketing and distribution of certain refined oil products are still subject to regulation by many government agencies including:

National Development and Reform Commission

The NDRC is responsible for formulating and implementing key policies in respect of petroleum and petrochemical industry, including:

- formulating a guidance plan for annual production, import and export amount of crude oil, natural gas and gasoline nationwide based on its forecast on macroeconomic conditions in China;

- setting the pricing policy for refined oil and natural gas products;

- approving certain domestic and overseas resource investment projects which are subject to the NDRC's approval as required by the Catalogue of Investment Projects Approved by the Government (2016); and

- approving foreign investment-involved projects that are in excess of certain investment limits.

The Ministry of Commerce

The MOFCOM is responsible for examining, approving, record-filing of contracts allocating production quotas for oil and gas development within the PRC, Sino-foreign equity joint venture contracts and Sino-foreign cooperation joint venture contracts for oil and gas development within the PRC. It is also responsible for issuing quotas and licenses for import and export of crude oil and refined oil products.

In November 2010, we were approved by four Ministries including the MOFCOM to become one of the first trial enterprises to cooperate with international business partners and develop coal bed methane resources within the approved region (*MOFCOM Circular 984 [2010]*).

Ministry of Natural Resources

The Ministry of Natural Resources (the "MNR", former the ministry of Land and Resources, the "MLR") is responsible for approving, issuing and registering the licenses that are required to explore and produce crude oil and natural gas in China and approving the transfer of these exploration rights and production rights.

National Energy Administration

The National Energy Administration (the "NEA") is primarily responsible for the formulation of energy development plans and annual directive plans, approving major energy-related projects and facilitating the implementation of sustainable development of energy strategies, coordinating the development and utilization of renewable energies and new energies, and organizing matters relating to energy conservation and comprehensive utilization as well as environmental protection for the energy industry.

Regulation of Exploration and Production

Exploration and Production Rights

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1986, the Standing Committee of the National People's Congress passed the Mineral Resources Law (amended in 1996 and 2009, respectively) which authorizes the MNR to exercise administrative authority over the exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted.

On September 22, 2017, the geological survey qualification examination and approval is cancelled pursuant to the Decision of the State Council on Canceling a Number of Administrative Licensing Items (No. 46 [2017] of the State Council). According to the Announcement of the Ministry of Land and Resources on Strengthening Post-event Supervision after Cancellation of Geological Exploration Qualification Approval published on October 31, 2017, after the cancel of the geological survey qualification examination and approval, MLR shall establish a national geological exploration information publicity platform, which shall be independently reported by the geological exploration unit, and its performance and exploration activities shall be updated regularly, and publicized to the public to provide services for investors to select geological exploration units. At the same time, the platform shall accept the supervision of the competent government departments and the society. Through the supervision and inspection of the government departments and social supervision, the geological exploration units that have verified the false information will be included in the anomaly list, and the geological exploration units that have verified the violations will be blacklisted. Geological exploration units that are included in the list of abnormalities and blacklists shall be subject to restrictions in accordance with the law in matters such as contracting financial funds projects and applying for mining rights.

Incentives for Shale Gas Development

In order to incentivize the exploration, discovery and development of China's shale gas reserves and to increase the supply of natural gas and relieve imbalance between supply and demand of natural gas, the Ministry of Finance of China and the NEA issued the *Notice on Subsidy for Shale Gas Development and Utilization (No. 847 [2012] of the Ministry of Finance)*, pursuant to which the central government will subsidize shale gas production companies at a rate of RMB 0.4 per cubic meter from 2012 to 2015.

The NEA issued the *Shale Gas Industry Policy* (the "Policy") on October 22, 2013, which classifies shale gas as a "national strategic new industry" and calls for more fiscal support for exploration and development of shale gas. In particular, subsidies should be given directly to a shale gas production company according to the amount of its shale gas development and utilization. Local governments are also encouraged to provide subsidies to shale gas production companies, with the subsidy amount to be determined by local fiscal authorities. The Policy also reduces or waives compensatory fee for mineral resources, license and royalty fees for shale gas production companies. For encouraged projects like shale gas exploration and discovery, the policy waives customs duty for the imported equipment and machineries that cannot be manufactured domestically, in accordance with relevant regulations. The PRC government also proposed to implement tax incentive programs for shale gas exploration and discovery with respect to resource tax, value added tax and income tax, etc.

In April 2015, to facilitate the development of the shale gas industry, the Ministry of Finance of China and the NEA issued the *Notice on Fiscal Subsidies for Shale Gas Development and Utilization (No. 112 [2015] of the Ministry of Finance)* to further implement the policy of fiscally subsidizing the shale gas industry during the period of the thirteenth "five-year" plan, and the subsidy will be RMB 0.3 per cubic meter and RMB 0.2 per cubic meter from 2016 to 2018 and from 2019 to 2020, respectively.

Price Controls on Crude Oil

According to the Measures for Administration of Petroleum Products Price issued by the NDRC on January 13, 2016, the crude oil price shall be determined and adjusted according to the market price.

Price Controls on Natural Gas

In June, 2013, the NDRC released the *Circular on Adjustment of the Price of Natural Gas (Fa Gai Jia Ge [2013] No. 1246)*. Pursuant to the circular, a dynamic adjustment mechanism shall be established by linking prices of natural gas to the prices of alternative energy to reflect market demands. A reference ceiling price is set by the government bench-marked against city-gate price, and suppliers and buyers may determine the specific prices through negotiations below the price ceiling. The natural gas prices of stock gas and incremental gas shall be differentiated, and the price of incremental gas shall be adjusted in one-go to maintain a reasonable correlations with such alternative energies as fuel oil and liquefied petroleum gas (with the weight of 60% and 40%); stock gas shall refer to the 2012 actual consumption amount, the price of stock gas shall be adjusted step by step to be on par with the price of incremental gas. City-gate prices shall be applied to domestic onshore natural gas and imported pipeline natural gas. Control over the ex-factory prices of shale gas, coal-bed gas, and coal gas and the gas source price of liquefied natural gas shall be lifted and such prices shall be determined by both the supplier and the buyer through negotiation. Where it is necessary to transmit such gases in a mixed manner in long-distance pipelines and sell them together, the uniform city-gate price shall be implemented; where such gases are transmitted in a mixed manner in long-distance pipelines, but are sold separately, the gas source price shall be determined by the supplier and the buyer through negotiation and transportation expenses shall be paid to the pipeline transportation service provider at the pipeline transportation price as prescribed by the state.

In February 2015, with the goal of unifying stock gas and incremental gas prices, the NDRC released the *Circular on Rationalizing the Price of Non-Residential Natural Gas (Fa Gai Jia Ge [2015] No. 351)*, which calls for rationalizing the price of non-residential natural gas, implementing pilot programs for price liberalization of directly supplied gas for end-users. Based on the price fluctuation of the prices of alternative energies such as fuel oil and liquefied petroleum gas, and in accordance with the pricing mechanism of natural gas then in place, ceiling city-gate prices for incremental non-residential natural gas will be decreased by RMB 0.44 per cubic meter, the ceiling city-gate prices for stock gas will be increased by RMB 0.04 per cubic meter to unify gas prices. This circular will be implemented from April 2015.

In November 2015, pursuant to the general guideline of furthering the price reform of resources products, the NDRC released the *Circular on Adjustment of the City-Gate Price of Non-Residential Stock Natural Gas (Fa Gai Jia Ge [2015] No. 2688)*, in order to further liberalize the pricing of natural gas, replacing the reference ceiling price for city-gate prices of non-residential stock natural gas with a reference base rate, which is set at RMB 700 below the reference ceiling price. With reference to the reference base rate, suppliers and buyers may determine the specific prices through negotiations below 120% of the reference base rate; to continue the existing subsidy program for fertilizer gas price and the fertilizer gas price will remain unchanged. This circular was implemented from November 2015.

In August 2017, pursuant to the reform of the supply side and the adjustment of value-added tax, the NDRC released the Circular on Adjustment of the Benchmark Price of Non-Residential Stock Natural Gas (Fa Gai Jia Ge Gui [2017] No. 1582), in order to implement the requirements of the supply side reform and with reference to the decrease of value-added tax, non-residential gas benchmark price was lowered by RMB 0.1 per cubic meter, effective from September 1, 2017.

Regulation of Pipelines Networks

According to the *Measures for Regulation of Fair and Open Access to Oil and Gas Pipeline Networks (Trial)(NEA No. 84 [2014])*, pipeline and facility operators shall equally open pipeline networks and associated facilities to third parties and provide transportation, storage, gasification, liquefaction and compression and other services, if they have surplus capacity. The price for services will be determined by the PRC pricing authorities. Operators will be required to publish information in relation to access standards, service price, conditions and procedures for application regularly, through their own website or other platform recognized by the NEA. Operators should also report to the NEA or its branches in relation to the status of the facilities, the delivery points, outstanding capacity and scheduled maintenance.

In October 2016, the NDRC issued the I*nterim Provisions for Management Measures of Natural Gas Pipeline Transmission Prices* and the Interim Provisions for Supervision and Review of Natural Gas Pipeline Transmission Cost. The provisions stipulate that (1) the pricing method shall follow the principle of "permitted cost plus reasonable income" and the method and procedures for determining and adjusting prices and the related core indexes such as permitted income rate and load rate are also defined; (2) it is required that independent accounting should be conducted in respect of the natural gas transportation business with the related costs to be calculated separately, and the standards for determining the major indexes constituting costs are also defined; and (3) appropriate public disclosure of cost related information is required.

Regulation of Refining and Marketing of Refined Oil Products

Volume and Price Controls on Gasoline Diesel and Jet Fuels

The PRC government continues to exercise control over the prices of gasoline, diesel and jet fuels.

According to the Notice on Implementing Reforms on Prices of Refined Oil Products and Tax promulgated by the State Council on December 18, 2008 and the Measures for Administration of Petroleum Products Price issued by the NDRC on January 13, 2016, the sale price for refined oil products in the PRC market shall be adjusted with reference to international crude oil price fluctuations, subject to governmental control. The NDRC will set the maximum retail price and the provincial price bureaus have the authority to set the maximum wholesale prices for gasoline and diesel. As a principle, the maximum retail price for gasoline and diesel in the Chinese market shall be decided with reference to the international crude oil price plus the average domestic processing costs, tax levies, reasonable sales and marketing expenses and appropriate profit. Gasoline and diesel prices shall be adjusted once every 10 business days according to the changes in crude oil prices on the international market. Price adjustments shall come into effect at 24:00 on the date when such adjustments are announced. If the international crude oil prices experience sustained increase or radical fluctuation, the price of refined oil products, including gasoline and diesel products, will be controlled by the government to reduce the oil price fluctuation impact upon the PRC market. In addition, the ex-factory price of the jet fuels (standard) will be determined by the buyers and the sellers, subject to a limit of no more than the import parity price in the Singapore market. The NDRC will regularly release the import parity price for jet fuels in the Singapore market. On September 16, 2013, a Circular of Relevant Opinions on Price Policies for Upgrading Oil Quality was promulgated by the NDRC, pursuant to which the upper limit of the prices for automotive gasoline and diesel that meet the National IV standards and National V standards can be raised respectively.

On February 15, 2015, the NDRC released the *Notice on Market-oriented Reform on Ex-factory Price of the Jet Fuels (Fa Gai Jia Ge [2015] No.329)*. Pursuant to the Notice, the NDRC will no longer release the import parity price for jet fuels in the Singapore market. The price of jet fuels shall still be determined by buyers and sellers without a cap. However, when supplying jet fuels for General Logistics Department of the Chinese People's Liberation Army, the price shall still be the import parity price in the Singapore market.

Regulation of Crude Oil and Refined Oil Products Market

On December 4, 2006, the Ministry of Commerce of the PRC promulgated the Administrative Rules for Crude Oil Market and Administrative Rules for Refined Oil Products Market, which was amended on October 28, 2015 to open the wholesale market of crude oil and refined oil products to new market entrants, respectively. Foreign enterprises' rapid entrance into Chinese petroleum and chemical products markets may change the current market status for petroleum and chemical products market.

On March 26, 2013, the NDRC announced adjustments to the existing refined oil pricing mechanism, which included, among other things, (i) shortening the price adjustment period from 22 business days to 10 business days; (ii) lifting the 4% downward and upward fluctuation cap of the price adjustments; (iii) adjusting the composition of domestic benchmark crude oil types in response to changes of types of imported crude oil and crude oil trading in the overseas market. Under certain extreme circumstances, such as sharp rises in domestic inflation or dramatic fluctuations of international crude oil prices, the NDRC may issue additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustments upon the approval by the State Council.

On January 13, 2016, the NDRC announced further adjustments to the refined oil pricing mechanism, which included, among other things, (i) set up the minimum adjusted price for refined oil which is US$ 40 per barrel, (ii) establish a risk reserve for oil price adjustments, (iii) lift the control on the factory price of liquefied petroleum gas, (iv) simplify the procedures on adjusting the refined oil price.

Investment

Under the State Council's Decision on Investment System Reform, investments without the use of government funds are only subject to a licensing system or a registration system, as the case may be. Under the current system, only significant projects involved in the Catalogue of Investment Projects Approved by the Government (2016) are subject to approval so as to maintain social and public interests. The scope to which the government approval system is applicable shall be observed and adjusted where necessary. All other projects of any investment scale are only subject to a registration system.

Pursuant to the *Measures for the Administration of Overseas Investment of Enterprises* (No. 11 of NDRC) issued by the NDRC on December 26, 2017 and effective as of March 1, 2018, projects subject to approval are sensitive projects to be carried out by investors either directly or through overseas enterprises controlled thereby and the approval authority is NDRC. Projects subject to filing are non-sensitive projects directly carried out by investors, namely the non-sensitive projects involving the direct investment of assets and equities or the provision of financing or guarantees. For a project requiring filing, the authority in charge of filing is (i) NDRC, if the investor is a centrally administered enterprise (a centrally administered financial enterprise or an enterprise directly subordinate to the administration by the State Council or its subordinate organ, the same below); (ii) NDRC, if the investor is a local enterprise and the amount of Chinese investment is USD 0.3 billion or above; and (iii) the provincial development and reform authority at the place where the investor is registered, if the investor is a local enterprise and the amount of Chinese investment is less than USD 0.3 billion.

On January 7, 2017, the SASAC issued the Measures for the Supervision and Administration of the Outbound Investment by Central Enterprises (中央企業境外投資監督管理辦法，"Outbound Investment Measures") to strengthening the supervision and administration of the outbound investment by central enterprises, which shall refer to State-funded enterprises in which the SASAC performs the responsibilities of an investor on behalf of the State Council. Under the Outbound Investment Measures, The SASAC shall formulate a negative list of outbound investment projects by central enterprises; regulate such projects in a classified manner. Where an outbound investment project is classified as being subject to special regulation under the negative list, a central enterprise shall submit the said project to the SASAC for going through the procedures of review and control in the capacity as an investor after central enterprise decision-making procedures but before submitting documents to relevant State departments for the first time.

In accordance with the Administrative Measures for Overseas Investments issued by the MOFCOM, overseas investments involving sensitive countries (regions) and sensitive shall be approved by the MOFCOM. All other investments shall be filed with the MOFCOM.

Pursuant to the Anti-Monopoly Law of the PRC which became effective on August 1, 2008, when market concentration by business carriers through merger, acquisition of control through shares or assets acquisition, or acquisition of control or the ability to exercise decisive influence over other business carriers by contract or by other means reaches a threshold of declaration level prescribed by the State Council, the business carriers shall declare in advance to the Anti-monopoly Law enforcement agency; otherwise, the business carriers shall not implement such market concentration.

Taxation, Fees and Royalties

Companies which operate petroleum and petrochemical businesses in China are subject to a variety of taxes, fees and royalties.

Effective from December 1, 2014, the rate of mineral resource compensation charges on crude oil and natural gas is reduced to zero, and the applicable resource tax rate is correspondingly increased from 5% to 6%.

Effective from January 1, 2015, the threshold of the special oil income levy is increased from US$55 to 65 per barrel, and a five-level progressive rate is applied to special oil income levy collection based on the sale prices.

From November 29, 2014 to January 12, 2015, the unit tax amount of consumption tax on gasoline, naphtha, solvent and lubricant have been adjusted three times and the current applicable consumption tax rates are set forth in the table below.

On March 23, 2016, the Ministry of Finance and the State Administration of Taxation jointly issued the Circular of Full Implementation of Business Tax to Value-added Tax Reform, which provides that effective from May 1, 2016, value-added tax completely replaced business tax to cover all the business sectors that used to fall under the business tax regime.

In April 2017, the State Council issued a notice to implement the reform of the existing mineral resources income levy system, in which the existing license fees of exploration rights and production rights will be integrated into mining rights occupancy fees, and will be dynamically adjusted based on the changes in mineral product prices and economic development needs. Collection methods and standards have not yet been released.

The Environmental Protection Tax Law was promulgated on December 25, 2016 and effective as of January 1, 2018. According to Environmental Protection Tax Law, the enterprises, public institutions and other producers/operators that discharge taxable pollutants directly to the environment within the territorial areas of PRC and other sea areas under the jurisdiction of the PRC are the taxpayers of environmental protection tax and shall pay such tax in accordance with the provisions of this Law, and the air pollutants, water pollutants, solid wastes and noise stipulated in the Table of Items and Amounts of Environmental Protection Tax and the Table of Taxable Pollutants and Equivalent Values annexed to the Environmental Protection Tax Law are the taxable pollutants.

On September 22, 2017, the geological survey qualification examination and approval is cancelled pursuant to the Decision of the State Council on Canceling a Number of Administrative Licensing Items (No. 46 [2017] of the State Council). According to the Announcement of the Ministry of Land and Resources on Strengthening Post-event Supervision after Cancellation of Geological Exploration Qualification Approval published on October 31, 2017, after the cancel of the geological survey qualification examination and approval, MLR shall establish a national geological exploration information publicity platform, which shall be independently reported by the geological exploration unit, and its performance and exploration activities shall be updated regularly, and publicized to the public to provide services for investors to select geological exploration units. At the same time, the platform shall accept the supervision of the competent government departments and the society. Through the supervision and inspection of the government departments and social supervision, the geological exploration units that have verified the false information will be included in the anomaly list, and the geological exploration units that have verified the violations will be blacklisted. Geological exploration units that are included in the list of abnormalities and blacklists shall be subject to restrictions in accordance with the law in matters such as contracting financial funds projects and applying for mining rights.

Applicable tax, fees and royalties on refined oil products generally payable by us or by other companies in similar industries are shown below.

Tax Item	Tax Base	Tax Rate
Enterprise income tax	Taxable income	25% effective from January 1, 2008.
Value-added tax	Revenue	11% (10% effective from May 1, 2018) for liquefied petroleum gas, natural gas, and low density polyethylene for production of agricultural film and fertilizers and 17% (16% effective from May 1, 2018) for other items. 6%, 11% and 17% (16% effective from May 1, 2018) for taxable services. We generally charge value-added tax to our customers at the time of settlement on top of the selling prices of our products on behalf of the taxation authority. We may directly claim a refund from the value-added tax collected from our customers of any value-added tax that we paid for (i) purchasing materials consumed during the production process; and (ii) charges paid for drilling and other engineering services.
Consumption tax	Aggregate volume sold or self-consumed	Effective from January 13, 2015, RMB 1.52 per liter for gasoline, naphtha, solvent and lubricant, and RMB 1.2 per liter for diesel, fuel oil and jet kerosene.
Import tariff	CIF China price	5% for gasoline, 6% for diesel, 9% for jet kerosene and 6% for fuel oil. In 2017, the applicable tax rate for motor gasoline and aviation gasoline, No. 5-7 fuel oil and diesel is 1% and 0% for jet kerosene and naphth.
Resource tax	Aggregate volume sold or self-consumed or sales price	Effective from December 1, 2014, for domestic production of crude oil and natural gas, the applicable tax rate is increased from 5% to 6% of the sales revenue, exemption or deduction may apply if qualified.
Exploration license fee	Area	RMB 100 to RMB 500 per square kilometer per annum.
Production license fee	Area	RMB 1,000 per square kilometer per annum.
Royalty fee[(1)]	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	Total amount of value-added tax, consumption tax and business tax	7%, 5% and 1%.

Tax Item	Tax Base	Tax Rate
Education surcharge and local education surcharge	Total amount of value-added tax, consumption tax and business tax	3% for education surcharge and 2% for local education surcharge.
Special oil income levy	Any revenue derived from sale of domestically produced crude oil when the realized crude oil price exceeds US$65 per barrel.	Progressive rate of 20% to 40% for revenues derived from crude oil with realized price in excess of US$65 per barrel.
Environmental Protection Tax Law	Pollution equivalent quantity; the quantity of discharged solid waste; the decibels in excess of the national standards	Specified in the Table of items and Amounts of Environmental Protection Tax annexed to the Environmental Protection Tax Law, and the applicable tax amounts of the taxable air pollutants and water pollutants shall be determined and adjusted by the people's government of a province, autonomous region or centrally-administered municipality.

(1) Sino-foreign oil and gas exploration and development cooperative projects whose contracts were signed prior to November 1, 2011 and have not yet expired are still subject to royalty fee, and the project companies of those cooperative projects are not subject to any other resource taxes or fees. Sino-foreign oil and gas exploration cooperative projects whose contracts are signed after November 1, 2011 are not subject to royalty fee, but are subject to resource taxes.

MANAGEMENT

General

Our business and operations are managed by our senior management through our board of directors ("Board"). Our Board has been established pursuant to the approval of the SASAC dated April 13, 2012.

Directors and Senior Management

The table below sets forth information regarding our Directors and their concurrent positions at Sinopec Corp.

Name	Age	Position
Dai Houliang	55	Chairman and Secretary of the Party Committee of the Company, Chairman and President of Sinopec Corp
Ding Zhongzhi	68	External Director of the Company
Wang Lili.	67	External Director of the Company
Liu Xihan	62	External Director of the Company
Shi Huan	66	External Director of the Company
Chen Ge	56	Employee Director of the Company

The table below sets forth information regarding our other senior management and their concurrent positions at Sinopec Corp.

Name	Age	Position
Li Yunpeng	59	Deputy Secretary of the Party Committee and Deputy General Manager of the Company, Director of Sinopec Corp.
Yu Baocai	53	Party Committee Member and Deputy General Manager of the Company, Director of Sinopec Corp.
Jiang Liangping	53	Party Committee Member and Chief of Discipline Inspection Team of the Company
Ma Yongsheng	56	Party Committee Member and Deputy General Manager of the Company, Director and Senior Vice President of Sinopec Corp.
Zhao Dong.	48	Party Committee Member and Chief Financial Officer of the Company, Chairman of Supervisory Board of Sinopec Corp.
Ling Yiqun.	55	Deputy General Manager of the Company, Director and Senior Vice President of Sinopec Corp.
Liu Zhongyun	55	Deputy General Manager of the Company, Director and Senior Vice President of Sinopec Corp.
Li Yong	55	Deputy General Manager of the Company, Director and of Sinopec Corp.

The business address of our Directors is 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, China.

Dai Houliang, aged 55, is the Chairman of the Company as well as the Chairman and President of Sinopec Corp. Mr. Dai is a professor-level senior engineer and holds a PhD degree. Mr. Dai was appointed as Vice President of Sinopec Yangzi Petrochemical Company in December 1997. In April 1998, he was appointed as Director and Vice President of Yangzi Petrochemical Co., Ltd. In July 2002, he was appointed as Vice Chairman and President of Yangzi Petrochemical Co., Ltd. and Director of Sinopec Yangzi Petrochemical Company. In December 2003, he was appointed as Chairman and President of Sinopec Yangzi Petrochemical Co., Ltd. and Chairman of Sinopec Yangzi Petrochemical Company. In December 2004, he was also appointed as Chairman of BASF-YPC Company Limited. He was appointed as the Deputy Chief Financial Officer of Sinopec Corp. in September 2005. Mr. Dai was appointed as Vice President of Sinopec Corp. in November 2005. In May 2006, he was elected as a Director and was appointed Senior Vice President and Chief Financial Officer of Sinopec Corp. Mr. Dai was elected as a Director and appointed as Senior Vice President of Sinopec Corp. in May 2009. In March 2013, he was appointed as Chairman of Sinopec Catalyst Co., Ltd. In August 2016, he was appointed as Vice Chairman and President of Sinopec Corp.

Ding Zhongzhi, aged 68, is an External Director of the Company. He also serves as an External Director of China Mobile Communications Group Corporation. Mr. Ding graduated from Hunan University in 1974 majoring in electronic system and automation, and received his master's degree in management engineering from Central South University of Technology in 1997. Mr. Ding started his career in 1968 and had served as Director General of Changsha Power Industry Bureau; Deputy Director General and a member of the CPC Committee of Hunan Provincial Power Industry Bureau; Deputy Director General (Vice President) and a member of the Party Committee of Central China Power Administration Bureau; Director General (President) and Secretary of the Party Committee of Northwest Power Administration Bureau; President of China Power Investment Limited; Executive Vice Chairman, President, and Secretary of the Party Committee of China Power International Corporation; and a member of the preparatory team of China Power Investment Corporation. In December 2002, he was appointed as Vice President and a member of the Party Committee of China Power Investment Corporation. In September 2007, he served as a Director of State Nuclear Power Technology Corporation. In August 2011, he was elected as an External Director of China Mobile Communications Corporation. Mr. Ding has been an External Director of the Company since April 2012.

Wang Lili, aged 67, is an External Director of the Company. She graduated from Nankai University and received her MBA degree in international finance from the University of Birmingham, UK. Previously she served several positions in Bank of China, including Manager of global financial market foreign currency treasury department, Deputy General Manager of overseas management department, General Manager of credit management department, General Manager of risk management department, Chairperson of Yien Yieh Commercial Bank Ltd. (Hong Kong), Chairperson of Bank of China (Canada), Assistant to the President of Bank of China, and Director of Bank of China. Since she joined the Industrial and Commercial Bank of China in 2001, Ms. Wang has served as Vice President, Director, Chairperson of market risk committee, Vice Chairperson of credit review committee, Vice Chairperson of assets and liabilities committee, Chairperson of assets management committee, and Chairperson of notes study society, Chairperson of ICBC (London) Limited, Chairperson of ICBC (Argentina) S.A., Vice Chairperson of ICBC (Asia) Ltd., and Chairperson of the supervisory board of ICBC Credit Suisse Asset Management Co., Ltd. She was appointed External Director of the Company in February 2016.

Liu Xihan, aged 62, is an External Director of each of the Company, China Coal Technology & Engineering Group Corp., and Aviation Industry Corporation of China. He is a master degree holder and senior economist. Mr. Liu has served successively as Secretary of Communist Youth League of China of tugging fleet of Changhang Wuhan Bureau, Vice-Secretary and Secretary of

Communist Youth League of China of Changjiang Ship Corporation, Deputy General Manager of Changjiang Ship Corporation, and Vice President, General Manager, Vice Secretary and Secretary of the CPC committee of China Changjiang National Shipping (Group) Corporation. From December 2008 to June 2013, Mr. Liu has served as Secretary of the CPC Committee, Vice Chairman, President and Vice Secretary of Sinotrans & CSC Holdings Co., Ltd. From July 2013 to February 2015, Mr. Liu served as Deputy General Manager and member of CPC committee of China Shipping (Group) Company. He was appointed as a Full-time External Director of central enterprises in February 2015 and an External Director of the Company in February 2016.

Shi Huan, aged 66, is an External Director of the Company. He received his bachelor degree from China Central Party School. He was appointed as a Director-Level Assistant Special Inspector of the State Council Special Inspectors Department in 1998, and a Director-level Full-time Supervisor of large SOE Supervisory Committee under the Central Enterprise Working Committee in 2000, and Deputy Director and Deputy-Director-General-Level Full-time Supervisor of the same committee in 2001. In 2003, he served as Deputy Director and Deputy-Director-General-Level Full-time Supervisor of large SOE Supervisory Committee under State-owned Assets Supervision and Administration Commission of the State Council. In 2010, he was appointed as Director of the General Affairs Office and Director-General-Level Full-time Supervisor of large SOE Supervisory Committee under State-owned Assets Supervision and Administration Commission of the State Council. He was appointed as External Director of the Company in February 2016.

Chen Ge, aged 56, is Employee Director of the Company. Mr. Chen is a senior economist with a Master's Degree. From July 1983, Mr. Chen worked in Beijing Yanshan Petrochemical Company. From February 2000, Mr. Chen served as Deputy Director General of Board Secretariat of Sinopec Corp. Mr. Chen has been Director General of the Board Secretariat of Sinopec Corp. since December 2001. From April 2005, he acted as Director General of Corporate Reform Dept. Mr. Chen has been the Secretary to the Board of Directors and Director General of the Board Secretariat of Sinopec Corp. since April 2003, and also served as Director General of Enterprise Reform Administration Department of Sinopec Group (and Sinopec Corp.) since April 2005. He has been Assistant President of Sinopec Group since July 2010. In December 2013, he served as Deputy Secretary General of Guzhou Provincial People's Government and CPC Member of its Office of General affairs. He was elected Employee Director of the Company in October 2015.

Li Yunpeng, aged 59, is Deputy General Manager of the Company and the Director of Sinopec Corp. Mr. Li is a senior engineer with a Master's degree. In January 1998, Mr. Li was appointed Vice General Manager of Department of President Affairs at China Ocean Shipping (Group) Company (COSCO). In September 1998, Mr. Li was appointed Vice Chief of Discipline Inspection Group, General Manager of Supervision and Director of Supervisory Office of COSCO. In November 1999, he was appointed General Manager of the Human Resources Department of COSCO. In September 2000, he was appointed Chief of the Organization Department of COSCO, serving concurrently as General Manager of the Human Resources Department at COSCO. Since December 2002, he had served as Chief of the Organization Department, General Manager of the Human Resources Department and Secretary of the Communist Youth League of COSCO. In April 2003, he was appointed Assistant to the President of COSCO, serving concurrently as Chief of the Organization Department, General Manager of the Human Resources Department and Secretary of the Communist Youth League of COSCO. In April 2004, he was appointed Member of the Party Committee and Chief of the Discipline Inspection Group of COSCO. In December 2011, he was appointed Vice President and Member of the Party Committee at COSCO. In June 2013, he was appointed President and Member of the Party Committee of COSCO. Between July 2013 and December 2015, he was a director of COSCO board, President and Member of the Party Committee of COSCO. In February 2017, Mr. Li was appointed as the Deputy General Manager and Deputy Secretary of the Party Leadership Group of the Company.

Yu Baocai, aged 53, is a senior engineer with a Master's degree in economics. Yu was appointed Vice President of Daqing Petrochemical Company in September 1999, and then President and Deputy Party Secretary of the Company in December 2001.In September 2003, he was appointed President and Party Secretary of PetroChina Lanzhou Petrochemical Company. He became Vice President of CNPC and Member of the Party Committee of CNPC in September 2008. He held a concurrent post as Director of PetroChina in May 2011. He was appointed Vice President of Sinopec Group and Member of the Party Committee of Sinopec Group in June 2018.

Jiang Liangping, aged 53, is the Chief of Discipline Inspection Team of the Company. Mr. Jiang served as Director and Deputy Secretary General of China Association of Peaceful User of Military Industrial Technology in December 2000. He became Vice Director of General Office of China Shipbuilding Industry Corporation (CSIC) in January 2002, serving concurrently as Director of Economic Research Center of CSIC concurrently in June of the same year. He served as Director of General Office of CSIC and director of Economic Research Center of CSIC in February 2003. In January 2006, he served as Director of General Office of CSIC and Secretary of the Party Committee of China Shipbuilding Equipment and Materials Corporation (CSEMC), a wholly-owned subsidiary of CSIC. He served as Director of General Office of CSIC in February 2008. He was appointed Member of the Party Committee of China Huadian Corporation (CHD) and Chief of Discipline Inspection Group of CHD in October 2008. He also held a concurrent post as Vice President of CHD from July 2012 to June 2014. He was appointed as Member of the Party Leadership Group and Chief of Discipline Inspection Group of the Company in December 2016.

Ma Yongsheng, aged 56, is Deputy General Manager of the Company, Director and Senior Vice President of Sinopec Corp, and Chief Geologist of the Company. Mr. Ma is a professor level senior engineer with a Ph.D. degree and an academician of the Chinese Academy of Engineering. In April 2002, he was appointed as Chief Geologist of Sinopec Southern Exploration and Production Branch; in April 2006, he was appointed as Executive Deputy Manager (presiding over the work), Chief Geologist of Sinopec Southern Exploration and Production Branch; in January 2007, he was appointed as Manager and Party Secretary of Sinopec Southern Exploration and Production Branch; in March 2007, he served as General Manager and Deputy Party Secretary of Sinopec Exploration Branch; 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 Branch; in May 2008, he was appointed as Deputy Director General of Exploration and Production Department of Sinopec Corp.; in January 2017, he was appointed as Member of the Party Leadership Group of the Company.

Zhao Dong, aged 48, is the Chief Financial Officer of the Company and Chairman of Supervisory Board of Sinopec Corp. Mr. Zhao is a professor-level senior accountant with a Ph.D. degree. Mr. Zhao served as Chief Financial Officer of China National Oil & Gas Exploration and Development Corporation (CNODC) from June 2008 to October 2009. From October 2009 to September 2012, he was Chief Financial Officer and a Member of the Party Committee of CNODC, also serving as Chief Financial Officer of PetroChina International Investment Company Limited. He was appointed the Vice President, Deputy Secretary of the Party Committee, Secretary of the Discipline Inspection Commission and President of the trade unions of CNPC Nile Company in

September 2012. He became the President, Secretary of the Party Committee, Secretary of the Discipline Inspection Commission and President of the trade unions of CNPC Nile Company in August 2013. He was the President and the Deputy Secretary of the Party Committee of CNPC Nile Company from July 2014 to November 2015. Mr. Zhao was appointed Chief Financial Officer of PetroChina Company Limited in November 2015. In November 2016, he was appointed as Chief Financial Officer and Member of the Party Leadership Group of the Company.

Ling Yiqun, aged 55, is Deputy General Manager of the Company and Director and Vice President of Sinopec Corp. Mr. Ling is a professor level senior engineer with a master 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 General Director of Refining Department of Sinopec Corp.; in June 2003, he was appointed as the Director General of Refining Department 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 July 2010, he was appointed as Vice President of Sinopec Corp. Mr. Ling has been Deputy General Manager of the Company since April 2017.

Liu Zhongyun, aged 55, is Deputy General Manager of the Company and Director and Senior Vice President of Sinopec Corp. Mr. Liu is a professor level senior engineer with a Ph.D. degree in engineering. In December 2002, he was appointed as a standing committee member of CPC Committee and Director of Organization 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. Mr. Liu has been Deputy General Manager of the Company since April 2017.

Li Yong, aged 55, is Deputy General Manager of the Company and Director of Sinopec Corp. Mr. Li is a senior engineer with a bachelor in petroleum engineering and an MBA degree. Mr. Li joined CNOOC in 1984 and successively served as assistant engineer and engineer in China Offshore Oil Exploration Project Planning Company, Personnel Department and Operational Department of CNOOC. He was Head of Comprehensive Technology Division and Head of Well Testing Division of Exploration Department of CNOOC from 1993 to 1999, Director of Well Drilling and Completion Division of Development and Production Department of CNOOC Limited from 1999 to 2003, Vice General Manager of Tianjin Branch of CNOOC (China) Limited from 2003 to 2005. He served as Executive Vice President of COSL from October 2005 to April 2009, President of COSL from April 2009 to September 2010, Chief Executive Officer and President of COSL from September 2010 to July 2012, Chief Executive Officer, President and Party Secretary of COSL from July 2012 to June 2016. In June 2016, he was appointed Assistant President of CNOOC, Executive Vice President of CNOOC Limited, Director and Party Secretary of CNOOC Bohai Petroleum Administration Bureau, General Manager and Party Secretary of Tianjin Branch of CNOOC (China) Limited. Mr. Li has been Deputy General Manager of the Company since April 2017.

DESCRIPTION OF THE NOTES AND GUARANTEES

Each series of the Notes will be issued pursuant to a separate Indenture (each an "Indenture" and together the "Indentures") to be dated as of September 12, 2018 among the Guarantor, the Issuer and Citicorp International Limited as trustee (the "Trustee") and Citibank N.A., London Branch as paying agent, transfer agent and registrar. A copy of this offering memorandum, the Notes, the Guarantees and the Indenture will be available for inspection at the registered office of the Trustee. The holders of the Notes will be bound by, and be deemed to have notice of, all the provisions of the related Indenture.

The following summaries of certain provisions of the Notes, the Guarantees and the Indentures are subject to, and are qualified in their entirety by reference to, the detailed provisions of the Notes, the Guarantees and the Indentures. Terms and expressions used in this section and not otherwise defined shall have the meanings given to such terms in the Notes and the Indentures. This section does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indentures not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference.

General

The 2023 Notes will be issued in an initial aggregate principal amount of US$750,000,000 and will mature on September 12, 2023, the 2025 Notes will be issued in an initial aggregate principal amount of US$500,000,000 and will mature on September 12, 2025, the 2028 Notes will be issued in an initial aggregate principal amount of US$750,000,000 and will mature on September 12, 2028 and the 2048 Notes will be issued in an initial aggregate principal amount of US$400,000,000 and will mature on September 12, 2048, unless the 2023 Notes, the 2025 Notes, the 2028 Notes and the 2048 Notes are redeemed earlier pursuant to the terms thereof and of each respective Indenture.

The 2023 Notes will bear interest at the rate of 3.750% per annum. The 2025 Notes will bear interest at the rate of 4.125% per annum. The 2028 Notes will bear interest at the rate of 4.250% per annum. The 2048 Notes will bear interest at the rate of 4.600% per annum. Interest on the Notes will accrue from September 12, 2018 or from and including the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for, to and excluding the next Interest Payment Date or the maturity date, payable semi-annually in arrears on March 12 and September 12 and in each year (each, an "Interest Payment Date"), commencing on March 12, 2019, to the persons in whose names the Notes are registered at the close of business (whether or not a Business Day) on February 25 and August 28, respectively (each an "Interest Record Date") immediately preceding an Interest Payment Date. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

In any case where the due date of payment of the principal of or interest on the Notes or the date fixed for redemption of the Notes is not a Business Day (as defined below), then payment of principal or interest shall be made on the next succeeding Business Day, with the same force and effect as if made on the due date of payment or the date fixed for redemption, as the case may be, and no interest shall accrue for the period after such date. "Business Day" means a day in The City of New York, Hong Kong and the applicable place of payment other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to remain closed.

The Notes will not be entitled to the benefit of any sinking fund. The Notes shall be denominated in minimum principal amounts of US$200,000 and in integral multiples of US$1,000 in excess thereof.

The Notes will be the direct, unconditional, unsubordinated and unsecured obligations of the Issuer, and rank *pari passu* with all other unsecured and unsubordinated obligations of the Issuer (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all other indebtedness of the Issuer that is designated as subordinate or junior in right of payment to the Notes.

The Notes are unconditionally guaranteed as to the payment of the principal and interest in respect thereof and all other amounts payable thereunder as evidenced by the Guarantees and related provisions set forth in each respective Indenture. The Guarantees are the Guarantor's direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* with all of the Guarantor's other unsecured and unsubordinated obligations (other than obligations preferred by applicable law) and senior in priority of payment and in all other respects to all the Guarantor's other indebtedness that is designated as subordinate or junior in right of payment to the Guarantees.

The principal of, interest on, and all other amounts payable under, the Notes will be payable, and the Notes may be exchanged or transferred, at the office or agency of the Issuer, which initially will be the corporate trust office of the Trustee currently located at 39/F Champion Tower, 3 Garden Road, Central, Hong Kong, or at such other location or locations as the Issuer, in consultation with the Trustee, may designate.

The principal of and interest on the Notes will be made by wire transfer or otherwise in immediately available funds and payable in U.S. dollars or in such other coin or currency of the United States of America as of the time of payment is legal tender for the payment of public and private debts.

Payment of the principal of and interest on the Notes held through The Depository Trust Company ("DTC") will be credited to the respective accounts of the holders of the Notes with DTC or its participants, including Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg"). See "— Notes; Delivery and Form."

Guarantees

Under the Indentures, the Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of and interest on, and all other amounts payable under (including any Additional Amounts payable in respect of), the Notes when and as the same shall become due and payable, whether on the stated maturity, upon acceleration, by call for redemption or otherwise. The Guarantor has (i) agreed that its obligations under the Guarantees will be as if the Guarantor were principal obligor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indentures (other than in respect of the Guarantees) and (ii) waived the Guarantor's right to require the Trustee and the holders of the Notes to pursue or exhaust their legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantees. The Guarantees will not be discharged with respect to any Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Note is rescinded or must otherwise be restored, the rights of the holder of the Note under the Guarantees will be reinstated with respect to such payment as though such payment had not been made. All payments under the Guarantees will be made in U.S. dollars.

Guarantees of foreign indebtedness arising from offshore bond issuances by a PRC-incorporated entity are subject to registration by the State Administration of Foreign Exchange of the PRC (the "SAFE"). The Guarantor plans to undertake the SAFE registration.

The Guarantor understands from its discussion with the SAFE that under PRC law:

(i) the Guarantees will be legal, valid and binding obligations of the Guarantor upon execution;

(ii) the Guarantor is required to submit the Guarantees to the Beijing Branch of the SAFE (the "Beijing Branch") as soon as possible and in any event before the date 15 Beijing Business Days after the execution of the Guarantees. The Guarantees will be enforceable within the PRC against the assets of the Guarantor only upon the completion of administrative registration procedures with the Beijing Branch. See "Risk Factors — Risks Relating to the Notes and the Guarantees — There is uncertainty relating to the enforceability of the Guarantees of the Notes" and "Enforceability of Foreign Judgments and Civil Liabilities"; and

(iii) the Guarantees will cover all sums due under the Notes (including any principal, interest and related financial obligations).

Pursuant to the Notice on the Promulgation of the Provisions on Foreign Exchange Administration of Cross-border Guarantee issued by the SAFE on May 12, 2014, which became effective on June 1, 2014 (the "Cross-border Guarantee Provisions") and the Circular of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Management and Improving Authenticity and Compliance Review (Hui Fa [2017] No. 3) (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》(匯發[2017]3號)) issued on January 26, 2017, which came into effect on the same day, without obtaining the SAFE's approval, all proceeds raised by the Issuer under the Notes outside the PRC may not be remitted into the PRC directly or indirectly for use by way of securities investment. Pursuant to the Cross-border Guarantee Provisions, if the guarantee liability is the repayment responsibility of the offshore debtor under the bond issuance, the offshore debtor shall be under direct or indirect shareholding by the domestic institution, the income from the overseas bond issuance shall be used for the overseas investment project that has equity affiliation with the domestic institution In addition, the Cross-border Guarantee Provisions provide that, without obtaining the SAFE's approval, proceeds raised by the Issuer under the Notes may only be used for the purposes of overseas projects and may not be used to support the Issuer to engage in transactions beyond its normal scope of business, to fabricate a scope of business for the purposes of interest arbitrage, or for other forms of speculative transactions.

The Guarantees will be governed by the laws of the State of New York.

The Guarantor intends to execute and register the Guarantees as soon as reasonably practicable after the closing date of the offering.

Further Issues

The 2023 Notes will be issued in an initial aggregate principal amount of US$750,000,000, the 2025 Notes will be issued in an initial aggregate principal amount of US$500,000,000, the 2028 Notes will be issued in an initial aggregate principal amount of US$750,000,000 and the 2048 Notes will be issued in an initial aggregate principal amount of US$400,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Notes, create and issue pursuant to the Indentures, additional notes of a series having the same terms and conditions under each respective Indenture as the previously outstanding Notes of the relevant series in all respects, except for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Notes of the relevant series; *provided*, *however*, that such additional notes may have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Notes of a relevant series only if (i) such additional notes are fungible with such Notes for U.S. federal income tax purposes and (ii) registration with the Beijing Branch of the guarantees of such additional notes has been completed, prior to the additional notes being assigned the same CUSIP, ISIN, Common Code or other identifying number.

Additional Amounts

All payments of principal, premium and interest in respect of the Notes and/or the Guarantees will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("Taxes") imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC, Hong Kong, the Cayman Islands or any other jurisdiction in which the Guarantor or the Issuer (or any successor to the Guarantor or the Issuer) is organized or tax resident, in each case including any political subdivision, territory or possession thereof, any authority therein having power to tax or any area subject to its jurisdiction (each, a "Relevant Jurisdiction") or any jurisdiction from or through which any payment is made (together with Relevant Jurisdictions, each, a "Relevant Taxing Jurisdiction") unless such Taxes are required by law to be withheld or deducted. If any deduction or withholding for any present or future Taxes of the applicable Relevant Taxing Jurisdiction shall at any time be so required, the Guarantor or the Issuer, as the case may be, shall pay such additional amounts ("Additional Amounts") as will result (after deduction of such Taxes, including Taxes payable in respect of such Additional Amounts) in receipt by each holder of any Note of such amounts as would have been received by such holder with respect to such Note or Guarantee, as applicable, had no such withholding or deduction been required; *provided*, *however*, that no Additional Amounts shall be payable in respect of any Note:

(i) to a holder (or to a third party on behalf of a holder) who is liable to such Taxes in respect of such Note by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Note;

(ii) which is surrendered (where required to be surrendered) more than 30 calendar days after the Relevant Date, except to the extent that the holder of it would have been entitled to such Additional Amounts on surrender of such Note for payment on the last day of such period of 30 calendar days. "Relevant Date" means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Notes;

(iii) to a holder (or to a third party on behalf of a holder) who would have been able to avoid such withholding or deduction by duly presenting the Note (where presentation is required) to another paying agent;

(iv) with respect to any Taxes that would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer or the Guarantor addressed to the holder to provide certification or information concerning the nationality, residence or identity of the holder or beneficial owner of the Note, if due and timely compliance is required as a precondition to relief or exemption from the tax, duty assessment or governmental charge under the laws (not including treaties) of the Relevant Taxing Jurisdiction;

(v) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other similar governmental charge;

(vi) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Note or Guarantee;

(vii) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA or any law enacted by such other jurisdiction to give effect to such agreement, or any agreement with the U.S. Internal Revenue Service under FATCA; or

(viii) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding items (i) through (vii) above.

Additional Amounts will not be paid with respect to any payment of the principal of or any premium or interest on the Notes or under the Guarantees to any holder of a Note who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that payment would be required by the laws of the Relevant Taxing Jurisdiction to be included in the income of a beneficiary or settlor with respect to the fiduciary, a member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Note or Guarantee, such mention shall be deemed to include the payment of Additional Amounts provided for in each respective Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

Redemption

Unless earlier redeemed in the limited circumstances set forth below under "— Optional Redemption" and "— Optional Tax Redemption," the 2023 Notes will mature on September 12, 2023, the 2025 Notes will mature on September 12, 2025, the 2028 Notes will mature on September 12, 2028 and the 2048 Notes will mature on September 12, 2048, at a price equal to 100% of the principal amount thereof and the Notes will not be otherwise redeemable at the option of the Issuer.

Optional Redemption

The Guarantor or the Issuer may, at the Guarantor's option, at any time and from time to time redeem the Notes, in whole or in part, on not less than 30 nor more than 60 days' prior notice. The applicable Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the applicable Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Notes to be redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of 12 30-day months) at the Treasury Rate plus 20 basis points in the case of the 2023 Notes, 25 basis points in the case of the 2025 Notes, 25 basis points in the case of the 2028 Notes and 25 basis points in the case of the 2048 Notes, in each case plus, accrued and unpaid interest on the applicable Notes to be redeemed, if any, to (but not including) the date of redemption.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes to be redeemed. "Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Guarantor.

"Comparable Treasury Price" means, with respect to any redemption date, if clause (ii) of the definition of "Treasury Rate" below is applicable, the average of three (or such lesser number as is obtained by the Guarantor) Reference Treasury Dealer Quotations for such redemption date.

"New York Business Day" means a day in The City of New York other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to remain closed.

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by the Guarantor in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Guarantor, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Guarantor by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the third New York Business Day preceding such date of redemption.

"Treasury Rate" means, with respect to any date of redemption, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or the maturity date for the Notes to be redeemed, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such date of redemption, in each case calculated on the third New York Business Day immediately preceding such redemption date.

Optional Tax Redemption

Each series of the Notes may be redeemed, at the option of the Issuer, in whole but not in part, upon notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption and Additional Amounts, if any, if, as a result of any change in or amendment to the laws of a Relevant Jurisdiction or any regulations or rulings promulgated thereunder, or any change in the official interpretation or official application of such laws, regulations or rulings, which change or amendment (i) in the case of the Guarantor or the Issuer is announced and becomes effective on or after the date of this offering memorandum and (ii) in the case of any successor to the Guarantor or the Issuer that is organized or tax resident in a jurisdiction that is not a Relevant Jurisdiction as of the original issue date of the Notes is announced and becomes effective on or after the date such successor assumes the Guarantor's or the Issuer's obligations, as applicable, under the Notes and the Indentures,

(1) the Issuer is or would be required on the next succeeding due date for a payment with respect to such Notes, to pay Additional Amounts with respect to the Notes as described above under "— Additional Amounts"; or

(2) the Guarantor is or would be unable, for reasons outside its control, on the next succeeding due date for a payment with respect to such Notes to procure payment by the Issuer, and with respect to a payment due or to become due under the relevant Guarantee or the Indenture, as the case may be, the Guarantor is or would be required on the next succeeding due date for a payment with respect to such Notes to pay Additional Amounts as described above under "— Additional Amounts."

and such obligation cannot be avoided by the use of reasonable measures available to the Guarantor or the Issuer or any successor person, as the case may be.

Notwithstanding anything to the contrary herein, the Guarantor, the Issuer or any successor person may not redeem any series of the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at the Applicable Rate (as defined below) or less solely as a result of the Guarantor, the Issuer, or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law.

Notice of redemption of the relevant series of the Notes as provided above shall be given not less than 30 nor more than 60 calendar days prior to the date fixed for redemption. Notice having been given, the Notes of such series shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to the date fixed for redemption and any Additional Amounts, at the place or places of payment and in the manner specified in the notice. From and after the date fixed for redemption, if moneys sufficient for the redemption of such Notes shall have been made available as provided in each respective Indenture for redemption on the date fixed for redemption, the Notes shall cease to bear interest, and the only right of the holders of the Notes shall be to receive payment of the redemption price, interest accrued to the date fixed for redemption and Additional Amounts, if any.

"Applicable Rate" means the aggregate applicable rate on September 12, 2018 up to which withholding or deduction of Taxes is made by the Issuer or, as the case may be, the Guarantor, with respect to payments under the Notes or the Guarantees if required by law, by or within the PRC.

Repurchase upon a Change of Control Triggering Event

Upon a Change of Control Triggering Event (as defined below), the Issuer will be required to make an offer to repurchase all of the Notes at a price in cash equal to 101% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest on the principal amount of the Notes being repurchased to but excluding the date of repurchase (a "Change of Control Offer").

Within 30 calendar days following any Change of Control Triggering Event, the Issuer will be required to give written notice to holders describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase all of the Notes on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Notes properly tendered and not withdrawn under its offer.

A holder of the Notes will have no right to require the Issuer to repurchase portions of the Notes if it would result in the issuance of new Notes, representing the portion not repurchased, in an amount of less than US$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of the Notes pursuant to this covenant.

"Change of Control" means the occurrence, at any time, of any of the following:

(i) the Guarantor ceasing to own and control directly or indirectly 100% of the Voting Shares of the Issuer; or

(ii) the government of the People's Republic of China or Persons controlled by the government of the People's Republic of China ceasing to own and control directly or indirectly or in combination (through controlled entities) 100% of the Voting Shares of the Guarantor.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of "Aaa," "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns; a rating of "BBB-" or better by Fitch or any of its successors or assigns; or the equivalent ratings of any United States nationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody's, or Fitch or any combination thereof, as the case may be.

"Rating Agencies" means (i) Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors ("S&P"); (ii) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("Moody's"); (iii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors ("Fitch"); and (iv) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, any United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be.

"Rating Category" means (1) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (2) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's and "+" and "-" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "B-" to "B+," will constitute a decrease of one gradation).

"Rating Date" means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

"Rating Decline" means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: in the event the Notes are on the Rating Date (i) (a) (x) rated by three Ratings Agencies and (y) rated Investment Grade by at least two of such Rating Agencies, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; (ii) (a) (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies; (iii) (a) (x) rated by one Ratings Agency and (y) rated Investment Grade by such Rating Agency, and (b) cease to be rated Investment Grade by such Rating Agency; (iv) (a) (x) rated by three Ratings Agencies and (y) rated below Investment Grade by at least two such Rating Agencies, and (b) the rating by at least two of such Rating Agencies shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); (v) (a) (x) rated by two but not more Ratings Agencies and (y) rated below Investment Grade by any such Rating Agency, and (b) the rating by such Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); (vi) (a) (x) rated by one Ratings Agency and (y) rated below Investment Grade by such Rating Agency, and (b) the rating by such Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); or (vii) not rated by any Rating Agency.

Certain Covenants

Limitation on Liens

The Indentures provide that the Guarantor will not, and will not permit the Issuer or any Principal Subsidiary to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Guarantor, the Issuer or such Principal Subsidiary (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Notes and the Guarantees will be secured either at least equally and ratably with such Relevant Indebtedness or by such other Lien as shall have been approved by the holders of the Notes as provided in the Indentures, for so long as such Relevant Indebtedness will be so secured; *provided that*, the Guarantor or any such Principal Subsidiary may issue secured Relevant Indebtedness so long as after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness of the Guarantor and the Principal Subsidiaries entered into after the date of the Indentures does not exceed 20% of the Guarantor's Adjusted Consolidated Net Worth.

The foregoing restriction will not apply to:

(i) any Lien which is in existence prior to the date of the Indentures and any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased);

(ii) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;

(iii) any Lien either over any asset acquired after the date of the Indentures which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary or which merges with and into the Guarantor after the date of the Indentures which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased); provided that any such Lien was not incurred in anticipation of such acquisition or of such company becoming the Guarantor's Subsidiary;

(iv) any Lien created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the date of the Indentures; *provided*, *however*, that (a) any such Lien shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired); and (b) any such Lien shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;

(v) any Lien created or outstanding in favor of the Guarantor or any of the Guarantor's Subsidiaries;

(vi) any Lien on any property or asset to secure all or part of the cost of exploration, drilling, development, production, gathering, processing, marketing of such property or asset or to secure Relevant Indebtedness incurred to provide funds for any such purpose;

(vii) any Lien arising in connection with industrial revenue, development or similar bonds or other Relevant Indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);

(viii) any Lien in respect of Relevant Indebtedness of the Guarantor or any of the Guarantor's Subsidiaries with respect to which the Guarantor or such Subsidiary has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Guarantor and the Guarantor's Subsidiary in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full); or

(ix) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing clauses; provided that such Relevant Indebtedness is not increased and is not secured by any additional property or assets.

Consolidation, Merger and Sale of Assets

The Indentures provide that neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, is not the surviving entity, or convey, transfer or lease our properties and assets (computed on a consolidated basis) substantially as an entirety to any Person unless:

(i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation validly existing under the laws of the People's Republic of China, Hong Kong, the Cayman Islands or the British Virgin Islands and such Person expressly assumes by indentures supplemental to the Indentures all the obligations of the Guarantor or the Issuer under the Indentures, the Notes or the Guarantees, as the case may be;

(ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;

(iii) any such Person not organized and validly existing under the laws of (or any such Person resident for tax purposes in a jurisdiction other than) the People's Republic of China (in the case of the Guarantor) or the British Virgin Islands or any successor jurisdiction (in the case of the Issuer) shall expressly agree in a supplemental indenture that its jurisdiction of organization or tax residence (or any political subdivision, territory or possession thereof, any taxing authority therein or any area subject to its jurisdiction) will be added to the list of Relevant Taxing Jurisdictions; and

(iv) if, as a result of the transaction, any property or asset of the Guarantor or any of the Guarantor's Principal Subsidiaries would become subject to a Lien that would not be permitted under "— Certain Covenants — Limitation on Liens" above, the Guarantor, the

Issuer or such successor Person takes such steps as shall be necessary to secure the Notes and the Guarantees at least equally and ratably with the Indebtedness secured by such Lien or by such other Lien as shall have been approved by holders of the Notes pursuant to the Indentures.

Further Limitation on Issuer's Activities and Related Matters

For so long as the Notes are outstanding:

(i) the Issuer will conduct no business or any other activities other than to finance the business operations of the Guarantor or one or more companies controlled by the Guarantor through the offering, sale or issuance of securities and borrowings of indebtedness and investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor, and any other activities in connection therewith;

(ii) the Guarantor will cause Sinopec Group Overseas Development Limited ("Holdings") to remain a "company controlled by the parent company" with respect to the Guarantor as such term is defined in Rule 3a-5 under the U.S. Investment Company Act of 1940, as amended;

(iii) the Guarantor will cause Holdings to maintain 100% equity ownership of the Issuer; and

(iv) the Guarantor will ensure each of the Issuer and Holdings' previous election to be treated as a disregarded entity for U.S. federal income tax purposes continues to be in effect, and neither the Issuer, Holdings nor the Guarantor will take any action that is inconsistent with the Issuer or Holdings being treated as a disregarded entity for U.S. federal income tax purposes.

Reports, Statements as to Compliance, and Notices of Default

For so long as the Notes are outstanding, the Guarantor will agree in the Indentures to file with the Trustee:

(i) as soon as they are available, but in any event within 180 calendar days after the end of each fiscal year of the Guarantor, copies of its financial statements in the English language (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of independent accountants; and

(ii) as soon as they are available, but in any event within 120 calendar days after the end of each first semi-annual fiscal period of the Guarantor, copies of its unaudited financial statements in the English language (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Guarantor, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor, to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the relevant semi-annual period;

provided that, if at any time the Capital Stock of the Guarantor is listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the

Guarantor are filed with any recognized exchange on which the Guarantor's capital stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in the English language.

So long as any of the Notes remain outstanding, the Guarantor will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Guarantor becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officer's certificate of the Guarantor setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

The Guarantor will agree in the Indentures that, so long as the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act or it is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, will furnish, upon the request of any holder of a Note or of a beneficial interest in a Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of a Note or a beneficial interest in a Note who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by the holder or beneficial owner with Rule 144A in connection with the resale of the Note or beneficial interest in the Note in reliance on Rule 144A.

Filing of the Notes with the NDRC

The Guarantor will file or cause to be filed with the National Development and Reform Commission of the PRC or its local branches (the "NDRC"), within 10 Beijing Business Days after the settlement date, the information listed under Schedule 2 of the Pilot Approval (the "NDRC Post-issue Filing"). The Guarantor shall, within five Beijing Business Days after submission of the NDRC Post-issue Filing, provide the Trustee with a certificate signed by any authorized signatory of the Guarantor confirming the submission of the NDRC Post-issue Filing. The Trustee shall have no obligation to monitor or ensure the completion of the NDRC Post-issue Filing within the time period prescribed by the Pilot Approval, and shall not be liable to the holders of the Notes or any other person for not doing so.

"*Pilot Approval*" means the Approval by the National Development and Reform Commission on the Foreign Debt Scale of the Pilot Enterprises of Foreign Debt Scale Management of 2018 (國家發展改革委關於2018年度外債規模管理企業外債規模的批覆) issued by the NDRC on February 9, 2018, as amended or supplemented.

Completion of the Registration of the Guarantees with the Beijing Branch

The Guarantor will use its commercially reasonable best efforts to complete the registration of the Guarantees with the Beijing Branch.

Other Covenants

In addition, the Indentures will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding the Issuer's and Guarantor's payment of taxes and other claims and the maintenance of an agent for service of process in the Borough of Manhattan, The City of New York.

Events of Default

Each of the following shall constitute an "Event of Default" under the Indentures for the Notes:

(i) failure to pay principal of or premium on any Note of that series on the date such amount is due and payable, upon optional redemption, acceleration or otherwise;

(ii) failure to pay interest on any Note of that series within 30 calendar days after the due date for such payment;

(iii) failure by the Issuer or the Guarantor to comply with (A) its obligations under the covenant described under "— Certain Covenants — Consolidation, Merger and Sale of Assets" or (B) its repurchase obligations under the covenant described under "— Repurchase upon a Change of Control Triggering Event";

(iv) failure to perform any other covenant or agreement of the Guarantor or the Issuer under the Indentures, and such failure continues for 60 calendar days after there has been given, by registered or certified mail, to the Guarantor or the Issuer, as the case may be, by the Trustee or by the holders of at least 25% in aggregate principal amount of the Notes of that series then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the relevant Indenture;

(v) the Guarantees shall cease to be in full force or effect or the Guarantor shall deny or disaffirm its obligations under the Guarantees;

(vi) if any regulatory, legislative, executive, judicial or constitutional authorization necessary to enable the Issuer or the Guarantor to perform their respective obligations under the Notes and the Guarantees or the Indentures cease to remain in full force and effect or at any time it otherwise becomes unlawful for the Guarantor or the Issuer to perform any of its payment obligations under the Indentures, the Guarantees or the Notes;

(vii) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary, (b) acceleration of the maturity of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary following a default by the Guarantor, the Issuer, or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the Guarantor or the Issuer as provided in each respective Indenture, or (c) failure to pay any amount payable by the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in each respective Indenture; provided, however, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US$100,000,000 (or its equivalent in any other currency);

(viii) one or more final judgments or orders for the payment of money are rendered against the Guarantor, the Issuer or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$100,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or

(ix) certain events in bankruptcy, insolvency or reorganization in respect of the Guarantor, the Issuer or any Principal Subsidiary as provided in each respective Indenture;

If an Event of Default (other than an Event of Default described in clause (ix) above) with respect to the Notes of that series shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes of that series then outstanding by notice as provided in each respective Indenture may declare the principal amount of the Notes of that series and any accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default in clause (ix) above with respect to the Notes shall occur, the unpaid principal amount of all the Notes of that series and any accrued and unpaid interest thereon will automatically, and without any action by the Trustee or any holder of the Notes of that series, become immediately due and payable. After any such acceleration but before a judgment or decree based on acceleration has been obtained, the holders of at least a majority in aggregate principal amount of the Notes of that series then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal, have been cured or waived as provided in each respective Indenture.

Subject to the provisions of the Indentures relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indentures at the request or direction of any of the holders of the Notes unless such holders shall have offered to the Trustee security and/or indemnity satisfactory to the Trustee. Subject to certain provisions, including those requiring security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Notes of a series then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes. However, the Trustee may refuse to follow any direction that conflicts with applicable law or the Indentures, that may involve the Trustee in personal liability or cause it to expend or risk its own funds or otherwise incur any financial liability in following such direction and may take any other action it deems proper that is not inconsistent with any such direction received from holders. No holder of any Notes of any series will have any right to institute any proceeding, judicial or otherwise, with respect to the Indentures, or for the appointment of a receiver or a trustee, or for any other remedy thereunder unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Notes of that series, (ii) the holders of at least 25% in aggregate principal amount of the Notes of that series then outstanding have made written request, and such holder or holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee, to institute such proceeding as trustee and (iii) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Notes of that series then outstanding a direction inconsistent with such request, within 60 days after such notice, request or offer. However, such limitations do not apply to a suit instituted by a holder of a Note for the enforcement of the right to receive payment of the principal of or interest on such Note on or after the applicable due date specified in such Note.

The Trustee need not do anything to ascertain whether any Event of Default has occurred or is continuing and will not be responsible to holders or any other person for any loss arising from any failure by it to do so, and the Trustee may assume that no such event has occurred and that each of the Guarantor and the Issuer is performing all their respective obligations under the Indentures and the related Notes and Guarantees unless the Trustee has received written notice of the occurrence of such event or facts establishing that the Guarantor or the Issuer, as the case may be, is not performing all of its obligations under the Indentures, the Notes and the Guarantees, as the case may be.

Payments for Consent

Neither the Guarantor nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of any Notes of any series for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indentures or the Notes of that series unless such consideration is offered to be paid or agreed to be paid to all holders of the Notes of that series that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Modification and Waiver

The Indentures contain provisions permitting the Guarantor, the Issuer and the Trustee, without the consent of the holders of the Notes, to execute supplemental indentures for certain enumerated purposes, including any amendment solely to conform the Indentures to this offering memorandum (as amended and supplemented) and, with the consent of the holders of not less than a majority in aggregate principal amount of the applicable series of the Notes then outstanding under each respective Indenture, to change or modify in any manner the rights of the holders of the Notes of the applicable series, provided that no such modification or amendment may, without the consent of all holders of the applicable series of the Notes, among other things:

(i) change the stated maturity of the Notes;

(ii) reduce the principal amount of or payments of interest on any such Note;

(iii) change any obligation of the Guarantor or the Issuer to pay Additional Amounts;

(iv) change the currency or place of payment of the principal of or interest on any such Note;

(v) impair the right to institute suit for the enforcement of any payment due on or with respect to any such Note;

(vi) reduce the above stated percentage of outstanding Notes necessary to modify or amend the each respective Indenture;

(vii) reduce the percentage of the aggregate principal amount of outstanding Notes necessary for waiver of compliance with certain provisions of the Indentures or for waiver of certain defaults;

(viii) change, in any manner adverse to the interest of holders of the Notes, the terms and provisions of the Guarantees in respect of the due and punctual payment of principal of and interest on the Notes;

(ix) reduce the premium payable upon the redemption or repurchase of any Note;

(x) modify such provisions with respect to limitations on the Issuer's activities; or

(xi) modify such provisions with respect to modification and waiver, which require the consent of the holders of the Notes as provided in each respective Indenture.

The holders of not less than a majority in aggregate principal amount of the Notes of a series then outstanding may, on behalf of holders of all the Notes of that series, waive compliance by the Guarantor or the Issuer with certain restrictive provisions of each respective Indenture. The holders of not less than a majority in aggregate principal amount of the Notes of a series may on behalf of all holders of the Notes of such series waive any existing or past default under the respective Indenture for the Notes of such series, except a continuing default in the payment of principal of, or interest on, any Note of such series then outstanding or in respect of a covenant or provision which under such Indenture cannot be modified or amended without the consent of the holder of each Note of such series then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Notes of a series, whether or not they have given consent to such waivers, and on all future holders of such Notes, whether or not notation of such waivers is made upon such Notes. Any instrument given by or on behalf of any holder of a Note in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Note.

The consent of the holders of any series of the Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment described in the preceding paragraph becomes effective, the Issuer or the Guarantor will deliver to the holders of such Notes and the Trustee a notice briefly describing such amendment. However, the failure to give such notice to all holders of such Notes, or any defect therein, will not impair or affect the validity of the amendment.

Defeasance and Discharge

The Indentures provide that, upon the conditions set forth therein, the Guarantor and the Issuer (i) may each be discharged from all their respective obligations with respect to Notes (except for certain obligations to exchange or register the transfer of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold moneys for payment in trust and to pay Additional Amounts), or (ii) need not comply with certain restrictive covenants of the Notes (including those described under "— Certain Covenants" (other than as described in "— Further Limitations on Issuer's Activities and Related Matters") and the events under paragraphs (iii), (iv), (vii) and (viii) under "— Events of Default") shall not constitute an Event of Default under the Indenture), in each case upon the deposit in trust with the Trustee for the benefit of the holders of such Notes of money in U.S. dollars or U.S. Government Obligations (as defined below), or both, which, through the payment of principal and interest thereon in accordance with their terms, will provide money in an amount sufficient to pay the principal of and interest on the Notes (and any Additional Amounts in respect thereof) in accordance with the terms of the Indenture and the Notes. Such defeasance or discharge pursuant to clauses (i) and (ii) above may occur only if, among other things, the Guarantor and the Issuer have delivered to the Trustee an opinion of independent legal counsel of recognized standing licensed to practice law in the United States to the effect that beneficial owners of such Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance or discharge and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit, defeasance or discharge had not occurred, which opinion of counsel in the case of defeasance described in (i) above must be based on a ruling received by the Guarantor or the Issuer from the U.S. Internal Revenue Service or a published ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law after the original issue date of the Notes.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

Prescription

Any moneys deposited with or paid to the Trustee or any paying agent of the Notes, or then held by the Issuer, in trust, for the payment of the principal of or interest on (or any Additional Amount payable in respect of) any Note and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Guarantor or the Issuer be repaid to the Guarantor or the Issuer, as the case may be, by the Trustee or such paying agent or (if then held by the Issuer) be discharged from such trust, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, and the holder of such Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Guarantor or the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent of the Notes with respect to such moneys shall thereupon cease.

Under New York law, any legal action upon the Notes or Guarantees must be commenced within six years after the payment thereof is due. Thereafter, the Notes or Guarantees will generally become unenforceable.

Concerning the Trustee

Citicorp International Limited will be the Trustee under the Indentures. The corporate trust office of Citicorp International Limited is currently located at 39/F Champion Tower, 3 Garden Road, Central, Hong Kong. The Issuer will appoint Citibank, N.A., London Branch as Paying Agent, Transfer Agent and Registrar, located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland.

The Indentures provide that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indentures. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the Indentures as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Indentures also provide that the Trustee and any paying or other agent of the Notes, in their individual or any other capacity, may become the owner or pledgee of the Notes with the same rights it would have if it were not the trustee or such agent and may otherwise deal with the Guarantor and the Issuer and receive, collect, hold and retain collections from the Guarantor and the Issuer with the same rights it would have if it were not the trustee or such agent. All moneys received by the Trustee shall, until used or applied as provided in the Indentures, be held in trust thereunder for the purposes for which they were received and need not be segregated from other funds except to the extent required by law.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indentures for the benefit of the holders unless such holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the calculation or computation of any amount payable under the Notes and the Guarantees or the verification of any such calculations or computations or any verification of the accuracy or completeness of any certification, opinion or other documents submitted to it by the Issuer or the Guarantor.

Indemnification for Judgment Currency Fluctuations

To the fullest extent permitted by law, the obligations of the Guarantor or the Issuer to any holder of the Notes under the Indentures, the Guarantees or the Notes, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Guarantor and the Issuer agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for the account of the Guarantor or the Issuer, as the case may be, such excess; provided that such holder or the Trustee, as the case may be, shall not have any obligation to pay any such excess as long as a default by the Guarantor or the Issuer in its obligations under the Indentures or the Notes has occurred and is continuing, in which case such excess may be applied by such holder or the Trustee, as the case may be, to such obligations.

Governing Law and Consent to Jurisdiction

The Notes, the Guarantees and the Indentures are governed by and will be construed in accordance with the laws of the State of New York.

The Guarantor and the Issuer will each irrevocably submit to the non-exclusive jurisdiction of any New York state or United States federal court located in the Borough of Manhattan, The City of New York, New York (each a "New York Court") in any suit, action or proceeding arising out of or relating to the Indentures, the Notes, the Guarantees or any transaction contemplated thereby, and will irrevocably waive, to the fullest extent permitted by applicable law, any objection to the venue of any such suit, action or proceeding in any such New York Court and any claim of an inconvenient forum.

The Guarantor and the Issuer have appointed China Petroleum & Chemical Corporation USA Representative Office, 515 Madison Ave, Suite 27 West, New York, NY, 10022, USA, as agent for service of process with respect of any such suit, action or proceeding.

Waiver of Immunity

To the extent that the Guarantor or the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its assets or properties, the Guarantor and the Issuer each irrevocably waives, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Notes, the Guarantees or the Indentures.

Notices

Notices to holders of the Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and will be deemed to have been given on the fourth Business Day after the date of mailing. So long as and to the extent that the Notes are represented by global notes and such global notes are held by DTC, notices to owners of beneficial interests in the global notes may be given by delivery of the relevant notice to DTC for communication by it to entitled account holders.

Notes; Delivery and Form

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg which will affect transfers of interests in the global notes.

The Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be initially in the form of one or more Regulation S global notes, fully registered without interest coupons, which will be deposited with Citibank N.A., London Branch, as custodian for DTC (in such capacity, the "Custodian") and registered in the name of Cede & Co., as nominee of DTC, for the accounts of Euroclear and Clearstream, Luxembourg, as participants in DTC.

The Notes sold to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act will be issued initially in the form of one or more Rule 144A global notes, fully registered without interest coupons, which will be deposited with the Custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Notes will be issued in minimum denominations of US$200,000 and in integral multiples of US$1,000 in excess of that amount.

The Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indenture and will bear a legend regarding such restrictions as set forth under "Transfer Restrictions." Under certain circumstances, transfers may be made only upon receipt by the Trustee of a written certification (in the form(s) provided in the Indentures).

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indentures) from the transferor to the effect that such transfer is being made to a non-U.S. person as defined in Rule 904 of Regulation S or pursuant to Rule 144 under the Securities Act (if available).

Any beneficial interest in one of the global notes that is transferred to an entity who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Investors may hold their interests in the global notes directly through DTC, Clearstream, Luxembourg or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests in the Regulation S global notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the "Participants") will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream, Luxembourg and Euroclear ("Clearstream Participants" and "Euroclear Participants," respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Persons who are not Participants may beneficially own interests in the global notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and Clearstream, Luxembourg). So long as Cede & Co., as the nominee of DTC, is the registered owner of the global notes, Cede & Co., for all purposes will be considered the sole holder of such Notes.

Payment of interest on and principal of the global notes will be made to Cede & Co., the nominee for DTC, as the registered owner of the global notes by wire transfer of immediately available funds. None of the Guarantor, the Issuer nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that, upon receipt of any payment of interest on or the redemption price of the global notes, DTC will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the global notes as shown on the records of DTC. Payments of interest on and principal of the Notes held through Clearstream, Luxembourg or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by Participants to owners of beneficial interests in the global notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name."

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the global notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

So long as the Notes are represented by global notes and such global notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Notes represented by the applicable global notes for all purposes under the Indentures, including, without limitation, obtaining consents and waivers thereunder, and none of the Guarantor, the Issuer or the Trustee shall be affected by any notice to the contrary. None of the Guarantor, the Trustee or the Issuer shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable global note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of the Notes (including, without limitation, the presentation of the Notes for exchange) only at the direction of one or more Participants and only in respect of the principal amount of the Notes represented by the global note as to which such Participant or Participants has or have given such direction.

Clearstream, Luxembourg or Euroclear, as the case may be, will take any action permitted to be taken by a holder of the Notes (including, without limitation, the presentation of the Notes for exchange) on behalf of a Clearstream Participant or a Euroclear Participant only in accordance with its relevant rules and procedures and subject to its ability to effect such actions through DTC.

DTC has advised the Issuer as follows:

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly ("Indirect Participants").

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Guarantor, the Issuer or the Trustee will have any responsibility for the performance by DTC, Clearstream, Luxembourg and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

Individual Notes

If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Issuer within 90 calendar days or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Notes, the Issuer will issue individual notes in certificated, fully registered form in exchange for the global notes.

Subject to the transfer restrictions set forth on the individual notes in certificated form, the holder of such individual notes in certificated form may transfer or exchange such Notes by surrendering them at the corporate trust office of the Trustee. Prior to any proposed transfer of individual notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Trustee as described under "—Notes; Delivery and Form" above. Upon the transfer, exchange or replacement of individual notes in certificated form not bearing the legend referred to under "Transfer Restrictions," the Trustee will deliver individual notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual note in certificated form, the Trustee will deliver only individual notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Guarantor or the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Guarantor or the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

"*Adjusted Consolidated Net Worth*" means the sum of the Guarantor's (a) shareholders' equity as determined under PRC GAAP and (b) Subordinated Indebtedness.

"*Beijing Business Day*" means a day other than a Saturday, Sunday or a day on which the Beijing Branch is authorized or obligated by law or executive order to remain closed.

"*Capital Stock*" means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

"*Indebtedness*" of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (ii) all noncontingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (iii) all Indebtedness of others guaranteed by such Person.

"*Issuer*" means Sinopec Group Overseas Development (2018) Limited.

"*Lien*" means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"*PRC GAAP*" means generally accepted accounting principles in the PRC consistently applied as in effect from time to time.

"*Principal Subsidiary*" at any time shall mean one of the Guarantor's Subsidiaries

(i) as to which one or more of the following conditions is/are satisfied:

  (a) its net profit or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor's consolidated net profit (before taxation and exceptional items); or

  (b) its net assets or (in the case of one of the Guarantor's Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor's consolidated net assets (after deducting minority interests in Subsidiaries);

  all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor's Subsidiary and the Guarantor's then latest consolidated financial statements, *provided that*: (1) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

(ii) to which is transferred all or substantially all of the assets of the Guarantor's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Guarantor's auditors as to whether or not the Guarantor's Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

"*Relevant Indebtedness*" of any Person means, at any date, Indebtedness that (x) has a final maturity date of one year or more from the date of incurrence or issuance of such Indebtedness and (y) is in the form of, is represented or embodied by, bonds, notes, debentures or other securities which are, or are intended to be, commonly quoted, listed or dealt in or traded on any stock exchange or over-the-counter securities market.

"*Subordinated Indebtedness*" means the Guarantor's indebtedness (including perpetual debt, which the Guarantor is not required to repay) which (i) has a final maturity and a weighted average life to maturity longer than the remaining life to maturity of the Notes and (ii) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Notes including (a) a provision that in the event of the Guarantor's bankruptcy, insolvency or other similar proceeding, the holders of the Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon, (b) a provision that, if an Event of Default has occurred and is continuing under the Indentures, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect thereof unless or until such Event of Default shall have been cured or waived or shall have ceased to exist, and (c) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Note is outstanding.

"*Subsidiary*" means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person.

"*Voting Shares*" means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser of the Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S under the Securities Act are used herein as defined therein):

1. it is not an "affiliate" (as defined in Rule 144 under the Securities Act) of the Company or the Issuer or acting on behalf of the Company or the Issuer and (A)(i) is a Qualified Institutional Buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or the account of a Qualified Institutional Buyer, or (B)(i) is outside the United States and (ii) is not a U.S. person;

2. it acknowledges that the Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;

3. (A) it understands and agrees that if it decides to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes other than a Regulation S global note within the time period referred to in Rule 144(d) under the Securities Act with respect to such resale, pledge or transfer, such Notes may be resold, pledged, or transferred only, (a) if such purchaser is an initial investor, (i) to the Company or the Issuer or any subsidiary thereof, (ii) to a person whom the seller reasonably believes is a Qualified Institutional Buyer that purchases for its own account or for the account of a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available); (b) if such purchaser is a subsequent investor, as set forth in (a) above and, in addition, pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in a(i), (a)(ii) or (a)(iii) above or (c) below, the Company, the Issuer, the Trustee, the Paying Agent, the Transfer Agent or the Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction;

   (B) if it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, it acknowledges that until the expiration of the 40-day distribution compliance period, it shall not make any offer or sale of the Notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the Securities Act, except pursuant to Rule 144A to a qualified institutional buyer taking delivery thereof in the form of a beneficial interest in a Rule 144A global note;

4. it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 3 above, if then applicable;

5. it understands and agrees that (A) the Notes initially offered in the United States to Qualified Institutional Buyers will be represented by Rule 144A global notes and (B) the Notes offered outside the United States in reliance on Regulation S will be represented by Regulation S global notes;

6. it understands that the Notes will bear a legend to the following effect, unless otherwise agreed to by the Company and the Issuer:

   [*IN THE CASE OF RULE 144A GLOBAL NOTES*] THIS NOTE AND THE GUARANTEE RELATING TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER, THE GUARANTOR OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.

   [*IN THE CASE OF REGULATION S GLOBAL NOTES*] THIS NOTE AND THE GUARANTEE RELATING TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION, AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE

ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A")) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN.

7. it acknowledges that the Company, the Issuer and the Initial Purchasers, the Trustee, the Paying Agent, the Transfer Agent, the Registrar and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes are no longer accurate, it shall promptly notify the Company and the Issuer, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indentures to effect exchanges of transfer of interests in the global notes and of the Notes in certificated form, see "Description of the Notes and Guarantees — Notes; Delivery and Form."

EXCHANGE RATES

This offering memorandum contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. Unless otherwise stated, the translations of Renminbi into U.S. dollars have been made at the Noon Buying Rate, as of June 29, 2018, which was RMB 6.6171 to US$1.00, the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve Board on June 29, 2018. We make no representation that the Renminbi or U.S. dollar amounts referred to in this offering memorandum could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. See "Risk Factors — Risks Related to Doing Business in the PRC — Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results." For discussions of the effects of fluctuating exchange rates and currency control on the value of your investment in the Notes.

The following table sets forth the Noon Buying Rate as set forth in the H. 10 statistical release of the Federal Reserve Board for and as of the period ends indicated from and after January 1, 2013:

Period	Period end	Average(1)	High	Low
	(RMB per US$1.00)			
2013	6.0537	6.1412	6.0537	6.2438
2014	6.2046	6.1620	6.0402	6.2591
2015	6.4778	6.2827	6.1870	6.4896
2016	6.9430	6.6549	6.4480	6.9580
2017	6.5063	6.7350	6.4773	6.9575
January 2018	6.2841	6.4233	6.2841	6.5263
February 2018	6.3280	6.3183	6.2649	6.3471
March 2018	6.2726	6.3174	6.2685	6.3565
April 2018	6.3325	6.2967	6.2655	6.3340
May 2018	6.4096	6.3701	6.3325	6.4175
June 2018	6.6171	6.4651	6.3850	6.6235
July 2018	6.8038	6.7164	6.6123	6.8102
August 2018	6.8030	6.8519	6.8030	6.9330

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of the Notes, including any possible consequences under the laws of their country of citizenship, residence or domicile.

British Virgin Islands

A British Virgin Islands business company is exempt from all provisions of the Income Tax Act of the British Virgin Islands including with respect to all dividends, interests, rents, royalties, compensations and other amounts payable by the company to persons who are not resident in the British Virgin Islands.

Income and capital gains realized with respect to notes issued by such company, such as the Notes, by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands. Accordingly, there is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payments to be made by such company pursuant to the Notes to persons who are not resident in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable with respect to the Notes by persons who are not persons resident in the British Virgin Islands.

PRC

Taxation on Interest

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under the laws of foreign countries and regions whose "de facto management bodies" are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the territory of the PRC, the Issuer may be treated as a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% on its income from sources both within and outside the PRC.

The EIT Law and its implementation regulations impose withholding tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on PRC-source income paid to a "non-resident enterprise" that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant income is not effectively connected therewith. Pursuant to these provisions of the EIT Law, in the event the Issuer is considered to be a PRC resident enterprise by the PRC tax authorities in the future, interest paid to non-resident enterprise holders of the Notes may be treated as income derived from sources within China and be subject to such PRC withholding tax. Further, in accordance with the Individual Income Tax Law of the PRC which took effect on September 1, 2011 and its implementation regulations which took effect on September 1, 2011, if the Issuer is considered to be a PRC tax resident enterprise, interest payable to non-resident individual holders of the Notes may be treated as income derived from sources within China and be subject to a 20% individual income tax which the Issuer would be obliged to withhold from payments of interests to non-resident individual holders of the Notes. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes.

As confirmed by the Issuer, as of the date of this offering memorandum, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered to be a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, non-resident holders of the Notes will not be subject to income tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

In addition, as the Guarantor is a PRC resident enterprise, in the event that the Guarantor is required to fulfill its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Guarantor will be obliged to withhold PRC enterprise income tax at a rate of 10% on such payments to non-resident enterprise holders of the Notes and 20% for non-resident individual holders of the Notes if such interest payments are deemed to be derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, which allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes. Repayment of the principal will not be subject to PRC withholding tax.

Taxation on Capital Gains

The EIT Law and its implementation regulations impose a tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on income derived from sources within the PRC realized by a "non-resident enterprise" that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant gain is not effectively connected therewith. The Individual Income Tax Law and its implementation regulations impose a tax at the rate of 20% on income derived from sources within the PRC realized by non-resident individuals. If the Issuer is considered to be a PRC resident enterprise by the PRC tax authorities in the future, and if the capital gains realized by holders of the Notes are treated as income derived from sources within China, such gains will be subject to the PRC tax described above. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified non-resident holders of the Notes, if both the Issuer and the investors qualify for benefits under the applicable tax treaty.

Value-added Tax and Related Surtaxes

PRC value-added tax and surtaxes may be withheld from the interest paid by the Guarantor at a rate of approximately 6.72% if the PRC tax authority views such interest as interest income derived from the territory of the PRC.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Notes outside mainland China.

Hong Kong

No Hong Kong taxes are required to be withheld from or chargeable on payments of principal, premium (if any) or interest in respect of the Notes. No Hong Kong stamp duty is payable on the sale and purchase or other disposal of bonds or notes denominated in a currency other than the Hong Kong dollar provided that the bonds or notes are not redeemable, and may not at the option of any person be redeemed, in Hong Kong dollars. Therefore, a sale or purchase or other disposal of the Notes will not be subject to Hong Kong stamp duty. Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance of Hong Kong (Chapter 112, the Laws of Hong Kong)) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Any capital gains from the sale of the Notes will not be subject to taxes in Hong Kong, except that Hong Kong profits tax may be chargeable in the case of owners of the Notes who carry on a trade, profession or business in Hong Kong and such gains form part of the revenue or profits of such trade, profession or business.

United States Federal Income Tax Considerations

The following is a summary of United States federal income tax considerations generally applicable to the ownership and disposition of the Notes by a "U.S. holder" (as defined below) who acquires our Notes upon original issuance at their initial offering price and who holds the Notes as "capital assets" (generally, property held for investment) for United States federal income tax purposes, but it does not purport to be a complete analysis of all potential tax consequences and considerations. This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules (e.g., banks or other financial institutions, insurance companies, broker-dealers, partnerships and their partners, tax-exempt organizations (including private foundations)), investors who are not U.S. holders, traders in securities that have elected the mark-to-market method of accounting, investors subject to the alternative minimum tax, real estate investment trusts, regulated investment companies, pension plans, cooperatives, investors who hold Notes as part of a straddle or other integrated security transaction, investors required to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognized on an applicable financial statement, or investors whose functional currency is not the United States dollar, all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state, local, non-United States, or non-income tax (such as United States federal gift and estate tax) considerations or the Medicare contribution tax. You are urged to consult your tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our Notes.

For purposes of this summary, a "U.S. holder" is a beneficial owner of our Notes that is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created in, or organized under the laws of, the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has an election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership or other entity treated as a partnership is a beneficial owner of our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our Notes, you are urged to consult your tax advisors regarding the United States federal income tax considerations of an investment in our Notes.

Payments of Interest

Interest on the Notes will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes. In addition to interest on the Notes, you will be required to include in income any PRC or other foreign taxes withheld from the interest payments you receive and, without duplication, any Additional Amounts paid in respect of such foreign taxes withheld.

Sale, Exchange or Other Disposition of the Notes

Upon the sale, exchange or other taxable disposition of a Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as ordinary interest income, as described in "— *Payments of Interest*" above, to the extent not previously included in income) and your tax basis in the Note. Your tax basis in a Note will generally be the cost of such Note. Gain or loss on the sale, exchange or other taxable disposition will be capital gain or loss and will be long-term capital gain or loss if the Note were held for more than one year. Certain non-corporate U.S. holders (including individuals) may qualify for preferential rates of United States federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations.

Foreign Tax Credit

If any PRC taxes are withheld in respect of any payments on the Notes (as discussed in "TAXATION — PRC"), you may be entitled to claim either a deduction or a foreign tax credit for United States federal income tax purposes, subject to certain limitations (including that the election to deduct non-U.S. taxes in lieu of claiming foreign tax credits must apply to all of your non-U.S. taxes for a particular tax year). Interest income (including any Additional Amounts) on a Note generally will be considered foreign source income and, for purposes of the foreign tax credit, generally will be considered "passive income" or, in certain cases, "general category income."

Because gain or loss on a sale or disposition of a Note generally will be U.S. source gain or loss, you may not be able to claim a credit for any foreign taxes imposed upon a disposition of a Note unless such credit can be applied (subject to certain limitations) against tax due on other income treated as derived from foreign source. If, however, any PRC tax is imposed upon a disposition of a Note (as discussed in "TAXATION — PRC") and you are eligible for the benefits of the U.S.-China income tax treaty, any gain or loss (or a portion thereof) from such disposition might be treated as non-U.S. source gain or loss for foreign tax credit purposes. You are urged to consult your tax advisors regarding the tax consequences if PRC tax is imposed on the disposition of a Note, including the application of the foreign tax credit rules to your particular circumstances.

You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes if you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisers regarding the availability of the foreign tax credit under your particular circumstances.

Foreign Asset Reporting

Certain U.S. holders are required to report information relating to an interest in a Note, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). You should consult your tax advisor regarding the effect, if any, of these rules on your ownership and disposition of the Notes.

The preceding discussion of certain U.S. federal income tax considerations is general information only and is not tax advice. Accordingly, each U.S. holder should consult its own tax advisor as to the particular tax and reporting considerations pertinent to it of holding or disposing of the Notes, including the applicability and effect of any U.S. federal, state, local or non-U.S. tax laws, and of any changes or proposed changes in applicable law.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement relating to the Notes among the Issuer, the Company, Citigroup Global Markets Inc., Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited and Mizuho Securities USA LLC, as representatives for the Initial Purchasers named below, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Notes set forth opposite its name below.

Initial Purchaser	Principal Amount of the 2023 Notes	Principal Amount of the 2025 Notes	Principal Amount of the 2028 Notes	Principal Amount of the 2048 Notes
Citigroup Global Markets Inc.	US$129,375,000	US$86,250,000	US$129,375,000	US$69,000,000
Goldman Sachs (Asia) L.L.C.	US$129,375,000	US$86,250,000	US$129,375,000	US$69,000,000
Bank of China Limited together with BOCI Asia Limited	US$110,625,000	US$73,750,000	US$110,625,000	US$59,000,000
The Hongkong and Shanghai Banking Corporation Limited	US$116,250,000	US$77,500,000	US$116,250,000	US$62,000,000
ICBC International Securities Limited	US$106,875,000	US$71,250,000	US$106,875,000	US$57,000,000
Mizuho Securities USA LLC	US$45,000,000	US$30,000,000	US$45,000,000	US$24,000,000
Agricultural Bank of China Limited Hong Kong Branch	US$22,500,000	US$15,000,000	US$22,500,000	US$12,000,000
Merrill Lynch (Asia Pacific) Limited	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
Bank of Communications Co., Ltd. Hong Kong Branch	US$15,000,000	US$10,000,000	US$15,000,000	US$8,000,000
CCB International Capital Limited	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
Crédit Agricole Corporate and Investment Bank	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
DBS Bank Ltd.	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
J.P. Morgan Securities plc	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
Morgan Stanley & Co. International plc	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
Société Générale	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
Standard Chartered Bank	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
UBS AG Hong Kong Branch	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
United Overseas Bank Limited	US$7,500,000	US$5,000,000	US$7,500,000	US$4,000,000
Total	**US$750,000,000**	**US$500,000,000**	**US$750,000,000**	**US$400,000,000**

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement. The purchase agreement also provides that the obligations of the Initial Purchasers to purchase the Notes are subject to, among other things, the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Notes, officers' certificates and legal opinions and to other conditions.

The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

Notes Are Not Being Registered

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales in reliance on the exemption provided by Rule 144A and Regulation S under the Securities Act. The Initial Purchasers will not offer or sell the Notes within the United States except to persons they reasonably believe to be Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act). Each of the Initial Purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Notes as part of its distribution at any time within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of the Notes

The Notes are a new issue of securities with no established trading market. An application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only. We cannot assure you that the Notes will be or remain listed. The Issuer has been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price that you receive when you sell your Notes will be favorable. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Company's operating performance and financial condition, general economic conditions and other factors.

Settlement

The Issuer expects that delivery of the Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+5"). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle on or about T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

Each of the Issuer and the Company has agreed that it will not, for a period of 60 days after the date of this offering memorandum, without first obtaining the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Issuer, the Company or any affiliate of the Issuer or the Company or any person in privity with the Issuer, the Company or any affiliate of the Issuer or the Company, directly or indirectly, or announce the offering, of any debt securities issued or guaranteed by the Issuer or the Company having a tenor of more than one year (other than (i) the offerings of the Notes contemplated hereby, (ii) any loans, including bilateral or syndicated loans or club deals and (iii) any securities denominated in Renminbi that are sold exclusively within the PRC after the closing date). The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Short Positions and Stabilizing Transactions

In connection with the offering, Citigroup Global Markets Inc., Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited and Mizuho Securities USA LLC as the Stabilizing Managers, may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Stabilizing Managers of a greater principal amount of the Notes than they are required to purchase in the offering. The Stabilizing Managers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the Stabilizing Managers' purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Issuer, the Company or any of the Initial Purchasers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer, the Company or any of the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors

The Notes which are the subject of the offering contemplated by this offering memorandum in relation thereto have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision: the expression "retail investor" means a person who is one (or more) of the following: i. a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "MiFID II"); or ii. a customer within the meaning of Directive 2002/92/EC (as amended), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Notice to Prospective Investors in the United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes and the Guarantees are being offered and sold outside of the United States in reliance on Regulation S. The Purchase Agreement provides that the Initial Purchasers may arrange for the offer and resale of the Notes and the Guarantees within the United States only to Qualified Institutional Buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantees, an offer or sale of the Notes and the Guarantees within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

To the extent the Initial Purchasers intend to make any offers or sales of the Notes in the United States, or to nationals or residents of the United States, they will do so only through one or more registered broker dealers in compliance with applicable securities laws and regulations, as well as with applicable laws of various states.

Notice to Prospective Investors in Italy

The offer of the Notes has not been registered with the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, the "CONSOB") pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or distributed, to the public nor may copies of this document or of any other document relating to the Notes be distributed in the Republic of Italy ("Italy"), except: to qualified investors (investitori qualificati) in Article 2, paragraph (e) of the Prospectus Directive as implemented by Article 34-ter of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time, (the "Issuers Regulation"); or

(a) to qualified investors (investitori qualificati) in Article 2, paragraph (e) of the Prospectus Directive as implemented by Article 34-ter of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time, (the "Issuers Regulation"); or

(b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Italian Legislative Decree No. 58 of February 24, 1998, as amended from time to time, (the "Financial Services Act") and Article 34-ter of the Issuers Regulation.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in Italy under (i) or (ii) above must be and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be:

made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007, as amended from time to time, and Legislative Decree No. 385 of September 1, 1993, as amended from time to time (the "Banking Act");

(a) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in Italy; and

(b) in compliance with any other applicable laws and regulations or requirement imposed by the Bank of Italy, CONSOB or other Italian authority.

Any investor purchasing the Notes in the offering is solely responsible for ensuring that any offer or resale of the Notes it purchased in the offering occurs in compliance with applicable Italian laws and regulations.

Notice to Prospective Investors in the United Kingdom

This offering memorandum is only being distributed in the United Kingdom to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer of the Notes which are the subject of the offering contemplated by this offering memorandum may not be made to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of the Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression (i) an "offer of the Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, (ii) "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and (iii) "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in Hong Kong

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, the Laws of Hong Kong), or (ii) to "Professional Investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, the Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are, or are intended to be, disposed of only to persons outside Hong Kong or only to "Professional Investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, the Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes offered in this offering memorandum have not been registered under the Securities and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in the PRC

This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- where no consideration is or will be given for the transfer;

- where the transfer is by operation of law;

- as specified in Section 276(7) of the SFA; or

- as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Singapore SFA Product Classification: in connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Notice to Prospective Investors in Australia

This offering memorandum is not, and is not intended to be, a disclosure document within the meaning of Section 9 of the Corporations Act 2001 (Cth) (the "Australian Corporations Act")) or a product disclosure statement for the purposes of Chapter 7 of the Australian Corporations Act. No action has been taken by us that would permit a public offering of the Notes in Australia. In particular, no prospectus or other disclosure document in relation to the Notes has been, or will be, lodged with the Australian Securities and Investments Commission ("ASIC") or the Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691) ("ASX").

Each Initial Purchaser has represented and agreed, or will be required to represent and agree, that it:

(a) has not offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of any Notes in Australia (including an offer or invitation which is received by a person in Australia); and

(b) has not distributed or published, and will not distribute or publish, this offering memorandum or any other offering material or advertisement relating to any Notes in Australia,

unless in either case (a) or (b),

(i) the aggregate consideration payable on acceptance of the offer or invitation by each offeree or invitee is at least A$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the person offering the Notes or making the invitation or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or 7.9 of the Australian Corporations Act and is not made to a person who is a "retail client" within the meaning of section 761G of the Australian Corporations Act;

(ii) the offer, invitation or distribution complied with the conditions of the Australian financial services license of the person making the offer, invitation or distribution or an applicable exemption from the requirement to hold such license;

(iii) the offer, invitation or distribution complies with all applicable laws, regulations and directives relating to the offer, sale and resale of the Notes in the jurisdiction in which such offer, sale and resale occurs; and

(iv) such action does not require any document to be lodged with ASIC or the ASX;

(c) will not offer any of the Notes purchased in this offering for resale in Australia within 12 months of those Notes being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 or 708A of the Australian Corporations Act.

Each Initial Purchaser, severally and not jointly, represents and warrants to and agrees with the Issuer and the Guarantor that, in connection with the primary distributions of the Notes, it will not offer or sell any of the Notes to any person if, at the time of such offer or sale, the employees or officers of the Initial Purchaser directly involved in the offer or sale know or have reasonable grounds to suspect that those Notes (or an interest in or right in respect of them) are being (or would be) acquired (directly or indirectly) by an associate of the Issuer within the meaning of section 128F(9) of the Tax Act, except as permitted in section 128F(5) of the Tax Act.

Notice to Prospective Investors in Switzerland

Neither the offering memorandum nor any other document relating to the sale of the Notes and the Guarantee constitutes a public offering prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. The Notes and the Guarantee may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither the offering memorandum nor any other document relating to the Notes and the Guarantee may be publicly distributed or otherwise made publicly available in or from Switzerland. The offering memorandum is not intended as an offer or solicitation with respect to the purchase or sale of the Notes and the Guarantee by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland, provided that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Notes and the Guarantee.

Notice to Prospective Investors in Taiwan

The Notes and the Guarantee have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

Notice to Prospective Investors in Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Other Relationships

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking and financial advisory and investment banking services, for the Issuer, the Company and their respective affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. The Issuer, the Company and their respective affiliates may enter into hedging or other derivative transactions as part of their risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to its obligations under the Notes. The Issuer's and the Company's obligations under these transactions may be secured by cash or other collateral.

In connection with the offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Guarantor or Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Company or its affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchaser or any affiliate of the Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or its affiliate on behalf of the Issuer in such jurisdiction.

RATINGS

The Notes are expected to be assigned a rating of "A1" by Moody's and "A+" by S&P. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agency, if, in each rating agency's judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating on the Notes, on any other of our securities, or on us. See "Risk Factors — Risks Relating to the Notes and the Guarantees — The rating of the Notes may be lowered, suspended or withdrawn; changes in such credit rating may adversely affect the value of the Notes."

LEGAL MATTERS

Certain legal matters in connection with this offering as to Hong Kong law and United States federal and New York law will be passed upon for the Issuer and the Company by Skadden, Arps, Slate, Meagher & Flom and for the Initial Purchasers as to United States federal and New York law by Linklaters. Certain legal matters in connection with this offering as to PRC law will be passed upon by JunHe LLP. Certain legal matters in connection with this offering as to British Virgin Islands law will be passed upon for the Issuer by Conyers Dill & Pearman.

INDEPENDENT AUDITORS

Our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 included in this offering memorandum have been audited, and our consolidated financial statements as of and for each of the six months ended June 30, 2017 and 2018 have been reviewed, by Grant Thornton China, Certified Public Accountants, our independent auditors, as indicated in their report with respect thereto, included herein.

DESCRIPTION OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND U.S. GAAP

Introduction

Our consolidated financial statements included in this offering memorandum have been prepared and presented in accordance with PRC GAAP. Certain differences exist between PRC GAAP and U.S. GAAP which might be relevant to our financial information included herein.

The following is a general summary of certain differences between PRC GAAP and U.S. GAAP as applicable to us. The differences identified below are limited to those significant differences that are appropriate to our financial statements. We are responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the summary. We have not prepared a complete reconciliation of the consolidated financial information and related footnote disclosure between PRC GAAP and U.S. GAAP and have not quantified such differences. Had any such quantification or reconciliation been undertaken by us, other potentially significant accounting and disclosure differences may be required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and U.S. GAAP as a result of prescribed changes in accounting standard. Regulatory bodies that promulgate PRC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between PRC GAAP and U.S. GAAP that may affect the financial information as a result of transactions or events that may occur in the future. Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and U.S. GAAP is complete.

In making an investment decision, you must rely upon your own examination of our financial information, the terms of the offering and other disclosure contained herein.

Inventories

PRC GAAP only permits reversal when the circumstances where previously caused inventories to be written down below cost no longer exist. PRC GAAP requires the reversal to be recognized under asset impairment loss.

Under U.S. GAAP, a provision to write down inventories to market value cannot be reversed. If inventory value is written down to lower amount, the reduced amount becomes new cost for subsequent periods. Inventories may be stated above cost only in exceptional cases (e.g., precious metals).

Intangible Assets

Under PRC GAAP, when an intangible asset arises from the development phase and the entity can demonstrate that all of the five criteria are met, the intangible shall be recognized:

(a) it is feasible technically to finish intangible assets for use or sale;

(b) it is intended to finish and use or sale the intangible assets;

(c) the usefulness of methods for intangible assets to generate economic benefits shall be proved;

(d) it is able to finish the development of the intangible assets; and

(e) the development of expenditures of the intangible assets can be reliably measured.

Under U.S. GAAP, all research and development ("R&D") expenditures (except those acquired in business combination) shall be charged to expenses and disclosed in notes when incurred, because FASB considers future benefits from R&D to have too much uncertainty, and costs and benefits to be lack of necessary causal relationship. However, U.S. GAAP requires costs of producing software masters (for products to be sold, leased or otherwise marketed) subsequent to establishing technological feasibility to be capitalized. The capitalization ceases when the product is available for general release to customers.

PRC GAAP requires an intangible asset to be measured initially at cost. The initial measurement includes its purchase price and any directly attributable cost of preparing the asset for its intended use (e.g., import duties, professional fees).

U.S. GAAP requires initial measurement at fair value, however it goes on to refer the general concept of asset acquisition to D2-D7 of FAS 141(R), which states that assets are initially recognized based on their cost to the acquiring entity (generally including the transaction costs of the asset acquisition).

Contingency

Under PRC GAAP, a provision shall be recognized when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

Under U.S. GAAP, an estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:

(a) information available before the financial statements are issued or are available to be issued indicates that it is probable an asset had been impaired or a liability had been incurred at the date of the financial statements; and

(b) the amount of loss can be reasonably estimated.

When a loss from contingency is charged to income, U.S. GAAP records either an increase in liability or a decrease in asset, while PRC GAAP records a provision (a liability) although sometimes it takes the form of allowance against an asset (e.g., in the case of uncollectible receivables). However the basic principles as to whether and when a loss from contingency should be recognized are the same under these two systems.

Although these two systems use probable, what they mean by probable is different. PRC GAAP uses probable as “more likely than not to occur,” which is defined as greater than 50%. U.S. GAAP uses probable as “likely to occur.” Although a numeric standard does not exist, practice generally considers an event that has 75% or greater likelihood of occurrence to be probable.

Because of the uncertainties surrounding contingencies, these two systems require “best estimate” as the amount to be recognized. However, they differ in practices as to what is a best estimate. PRC GAAP adopts a more statistical view on this matter. Although they consider the most likely outcome the anchor, they also weight-in the influence of other outcomes to reach the best estimate. U.S. GAAP accept the most likely outcome as the best estimate. When no amount within the range of outcome is a best estimate:

(a) under PRC GAAP, when there is a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range (i.e., the statistically correct point) is used.

(b) when no amount within the range of outcome is a best estimate, U.S. GAAP chooses the minimum amount in the range to be the recognized amount.

PRC GAAP requires time value of money to be included when its effect is material. Under U.S. GAAP, only when the amount and timing of payments are fixed or reliably determinable, or when the obligation is a fair value obligation, time value of money may be included.

Borrowing Costs

Under PRC GAAP, borrowing costs may include exchange differences that arise from foreign currency borrowings if they are regarded as an adjustment to interest costs.

Under U.S. GAAP, the exchange differences resulting from foreign currency borrowings are not capitalized and interest earned on the temporary investment of the funds borrowed to finance the production of the asset would not be netted against the borrowing costs.

Statement of Cash Flows

Under PRC GAAP, the direct method together with a supporting note reconciling operating result to cash flows arising from operations is the only permitted method.

U.S. GAAP requires an enterprise should report cash flows from operating activities using either: the direct method or the indirect method. If the direct method is used, then a reconciliation of net income and operating cash flow must be presented.

Government Grants

Under PRC GAAP, government grants and subsidies are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions have been complied with. When the grant or subsidy relates to a specifically identifiable expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate, while it should be included in current profits and losses to compensate for the relevant costs or losses that have been incurred. Government grants relating to purchase of property, plant and equipment are included in current liabilities as deferred income and are credited to the statement of income on a straight line basis over the expected useful lives of the relevant asset. Before 2017, government grants and subsidies were recognized as non-operating income and expenses. Since January 1, 2017, the government grants and subsidies related to daily operation shall be included in other income, while the government grants and subsidies unrelated to daily operation shall be included in non-operating income and expenses.

Under U.S. GAAP, there is no pronouncement that specifically covers government grants and subsidies.

GENERAL INFORMATION

1. **Authorizations**: The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes and the Indentures. The issue of the Notes was authorized by resolutions of the Board of Directors of the Issuer passed on September 4, 2018.

   The Company has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Guarantees and the Indentures. The issue of the Guarantees was duly authorized by the Chairman's Executive Committee of the Board of the Company on September 4, 2018.

2. **Litigation**: Except as disclosed in this offering memorandum, none of the Issuer, the Company or any of the Company's subsidiaries is involved in any litigation, arbitration, or governmental proceedings which may have, or have had during the 12 months preceding the date of this offering memorandum, a material adverse effect on the financial position of the Issuer or the Company, nor is the Issuer or the Company aware that any such proceedings are pending or threatened.

3. **Reporting Accountants**: The consolidated financial statements of the Company as of and for each of the years ended December 31, 2015, 2016 and 2017 set out in this offering memorandum have been audited, and the consolidated financial statements of the Company as of and for each of the six months ended June 30, 2017 and 2018, and the balance sheet of the Company as of June 30, 2018 have been reviewed, by Grant Thornton China, as stated in their reports appearing herein. Grant Thornton China is a member firm of Grant Thornton International Ltd. and is a group member of the Chinese Institute of Certified Public Accountants.

4. **No Material Adverse Change**: Except as disclosed in this offering memorandum, there has been no material adverse change in the prospects of the Issuer or the Company since June 30, 2018 and there has been no significant change in the financial or trading position of the Issuer or the Company since June 30, 2018.

5. **Clearing Systems and Settlement**: The Legal Entity Identifier (LEI) Code of the Issuer is 549300C6OZZ8LTVR8209. The Notes have been accepted for clearance through the facilities of Euroclear, Clearstream, Luxembourg and DTC. Certain trading information with respect to the Notes is set forth below:

	ISIN	CUSIP
2023 Rule 144A global note	US82939GAA67	82939G AA6
2023 Regulation S global note	USG82016AA75	G82016 AA7
2025 Rule 144A global note	US82939GAB41	82939G AB4
2025 Regulation S global note	USG82016AB58	G82016 AB5
2028 Rule 144A global note	US82939GAC24	82939G AC2
2028 Regulation S global note	USG82016AC32	G82016 AC3
2048 Rule 144A global note	US82939GAD07	82939G AD0
2048 Regulation S global note	USG82016AD15	G82016 AD1

Only Note evidenced by a global note have been accepted for clearance through Euroclear, Clearstream, Luxembourg or DTC, as the case may be.

6. **Documents Available for Inspection**: For so long as any of the Notes are outstanding, copies of the Company's articles of association (or equivalent) will be available for inspection by qualified lawyers of the PRC during normal business hours on any weekday (except public holidays) at the State Administration for Industry & Commerce of the PRC. For so long as any of the Notes are outstanding, copies of the Issuer's articles of association (or equivalent) will be available for inspection during normal business hours on any weekday (except public holidays) at the specified offices of the Trustee and paying agents.

7. **Where You Can Find More Information**: A copy of the Notes, the Guarantees, the financial statements of the Company and the Indentures will be available for inspection at the registered office of the Trustee, for the life of the Notes.

INDEX TO FINANCIAL STATEMENTS

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Auditor's Report

GTCSZ (2018) No. 110ZA5581-T

To the Board of Directors of China Petrochemical Corporation,

I. Opinion

We have audited the consolidated financial statement of China Petrochemical Corporation ("Sinopec Group"), which comprise the consolidated and company statements of financial position as at 31 December 2015, 2016 and 2017, and the consolidated and company statements of comprehensive income, consolidated and company statements of changes in equity, and consolidated and company statements of cash flows for the year ended 31 December 2015, 2016 and 2017 (the "Relevant Periods"), and the notes to the consolidated and company financial statements.

In our opinion, the accompanying financial statement present fairly, in all material respects, the consolidated and company's financial position of Sinopec Group as at 31 December 2015, 2016 and 2017, and their financial performance and cash flows for the Relevant Periods then ended in accordance with Accounting Standards for Business Enterprises.

II. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statement Section of our report. We are independent of Sinopec Group in accordance with the Code of Ethics for Chinese Certified Public Accountant (Ethics Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we fulfilled our other ethical responsibilities in accordance with these requirements and the Ethics Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of 2015, 2016 and 2017, but does not include 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 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 material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

IV. Responsibilities of Management and Those Charge with Governance for the Financial Statement

Management of Sinopec Group is responsible for the preparation and fair presentation of the financial statement in accordance with Accounting Standards for Business Enterprises, and for such internal control as management determines in necessary to enable the preparation of financial statements that are free form material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Sinopec 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 management either intends to liquidate Sinopec Group or to cease operations, or has no realistic alternative but to do so.

Those charge with governance are responsible for overseeing Sinopec Group 's financial reporting process.

V. Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the 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 China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise form 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 China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(1) 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.

(2) 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 Sinopec Group's internal control.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(4) 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 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 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, further events or conditions may cause Sinopec Group to cease to continue as a going concern.

(5) 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.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Sinopec 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.

Grant Thornton

Beijing, China	Certified Public Accountants: /s/ Ma Jian
25 April 2018	Certified Public Accountants: /s/ Liu Zhizeng

Consolidated Balance Sheet
As at 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
Current assets				
Cash	Ⅷ.1	195,941	164,675	94,232
Financial asset at fair value through profit and loss	Ⅷ.2	51,196		
Bills receivable	Ⅷ.3	20,186	16,542	13,524
Accounts receivable	Ⅷ.4	74,201	63,483	56,323
Prepayments	Ⅷ.5	12,997	10,785	8,613
Other receivables	Ⅷ.6	25,227	27,641	31,320
Inventories	Ⅷ.7	263,250	251,050	232,259
Non-current assets due within one-year	Ⅷ.8	79,633	68,961	65,852
Other current assets	Ⅷ.9	72,787	56,828	49,341
Total current assets		**795,418**	**659,965**	**551,464**
Non-current assets				
Available-for-sale financial assets	Ⅷ.10	18,667	23,780	21,570
Long-term receivables	Ⅷ.11	37,032	36,750	33,240
Long-term equity investments	Ⅷ.12	128,166	120,216	102,703
Fixed assets	Ⅷ.13	590,057	590,797	611,779
Oil and gas assets	Ⅷ.14	171,898	215,240	239,085
Construction materials		107	43	32
Construction in progress	Ⅷ.15	134,539	151,261	173,908
Intangible assets	Ⅷ.16	124,386	110,495	107,292
Goodwill	Ⅷ.17	10,819	8,537	8,456
Long-term deferred expenses	Ⅷ.18	18,514	17,409	17,733
Deferred tax assets	Ⅷ.19	16,740	8,332	8,663
Other non-current assets	Ⅷ.20	210,355	216,566	182,581
Total non-current assets		**1,461,280**	**1,499,426**	**1,507,042**
Total assets		**2,256,698**	**2,159,391**	**2,058,506**

Consolidated Balance Sheet (Continued)
As at 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
Current liabilities				
Short-term loans	Ⅷ.22	145,497	116,269	140,833
Bills payable	Ⅷ.23	11,906	10,088	8,175
Accounts payable	Ⅷ.24	247,030	225,600	179,528
Advances from customers	Ⅷ.25	149,295	126,054	117,819
Employee benefits payable	Ⅷ.26	10,200	5,387	2,938
Taxes and fees payable	Ⅷ.27	77,418	60,020	41,515
Interest payables		2,847	3,118	2,788
Other payables	Ⅷ.28	78,373	58,461	68,625
Non-current liabilities due within one year	Ⅷ.29	76,838	71,977	20,223
Other current liabilities	Ⅷ.30	43,024	51,114	74,065
Total current liabilities		**842,428**	**728,088**	**656,509**
Non-current liabilities				
Long-term loans	Ⅷ.31	37,677	66,306	76,006
Bonds payable	Ⅷ.32	218,537	216,688	206,008
Long-term employee benefits payable	Ⅷ.26	2,349	2,419	2,482
Long-term payables	Ⅷ.33	15,891	16,106	14,206
Estimated liabilities	Ⅷ.34	40,281	39,620	33,492
Deferred tax liabilities	Ⅷ.19	6,705	8,079	8,757
Other non-current liabilities		14,264	9,185	8,066
Total non-current liabilities		**335,704**	**358,403**	**349,017**
Total liabilities		**1,178,132**	**1,086,491**	**1,005,526**
Owner's equity				
Paid-in capital	Ⅷ.35	326,374	325,908	319,898
Capital reserves	Ⅷ.36	96,983	97,561	97,538
Other comprehensive income	Ⅷ.52	(24,995)	(23,851)	(38,584)
Specific reserve	Ⅷ.37	1,260	1,091	1,042
Surplus reserves	Ⅷ.38	209,415	205,373	204,977
General risk reserve	Ⅷ.39	1,460	1,328	877
Retained earnings	Ⅷ.40	129,985	132,869	144,491
Total equity attributable to parent company		**740,482**	**740,279**	**730,239**
Minority interests		338,084	332,621	322,741
Total equity		**1,078,566**	**1,072,900**	**1,052,980**
Total liabilities and equity		**2,256,698**	**2,159,391**	**2,058,506**

Dai Houliang	Zhao Dong	Ye Guohua
General Managert	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Consolidated Income Statement
For the year ended 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
1.Operating revenue	Ⅷ.41	**2,400,318**	**1,969,220**	**2,047,272**
2. Total operating costs		**2,358,007**	**1,934,382**	**1,997,462**
Incl.: Operating costs	Ⅷ.41	1,920,377	1,528,840	1,598,236
Taxes and surcharges	Ⅷ.42	239,627	237,978	241,696
Selling and distribution expenses		57,833	51,198	48,615
General and administrative expenses		81,778	77,905	75,744
Exploration costs		11,120	11,047	10,456
Financial expenses	Ⅷ.43	4,183	8,402	13,111
Assets impairment losses	Ⅷ.44	43,089	19,012	9,604
Add: Gain from changes of fair value (loss)	Ⅷ.45	(9)	(209)	729
Investment income (loss)	Ⅷ.46	13,094	16,819	6,207
Gains from assets disposal ("-" for losses)	Ⅷ.47	(2,222)	(1,183)	198
Other income	Ⅷ.48	5,335		
3.Operating profit (loss)		**58,509**	**50,265**	**56,944**
Add: Non-operating income	Ⅷ.49	3,546	6,650	8,805
Less: Non-operating expenses	Ⅷ.50	3,850	4,011	3,627
4. Profit before taxation		**58,205**	**52,904**	**62,122**
Less: Income tax expense	Ⅷ.51	19,245	24,705	18,028
5.Net profit		**38,960**	**28,199**	**44,094**
Less: Profit/loss attributable to minority interests		28,567	19,842	21,503
6.Net profit attributable to parent company		**10,393**	**8,357**	22,591
7.Other comprehensive income		**(3,094)**	**15,884**	**(4,877)**
8. Other comprehensive income, net of tax, attributable to parent company	Ⅷ.52	**(1,145)**	**14,733**	**(5,438)**
9.Total comprehensive income		**35,866**	**44,083**	**39,217**
Less: Total comprehensive income attributable to minority interest		26,618	20,993	22,064
10.Total comprehensive income attributable to parent company		**9,248**	**23,090**	**17,153**

Dai Houliang	Zhao Dong	Ye Guohua
General Manager	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
1.Cash flows from operating activities				
Cash received from sales and services		2,674,405	2,186,666	2,311,895
Refund of tax and surcharges		2,529	2,875	4,136
Other cash received relating to operating activities		59,099	45,701	63,424
Subtotal of cash inflows from operating activities		**2,736,033**	**2,235,242**	**2,379,455**
Cash paid for goods and services		2,005,593	1,526,189	1,700,138
Cash paid to and for employees		102,416	95,540	88,533
Payments of taxes and surcharges		343,524	334,704	352,063
Other cash paid relating to operating activities		79,413	64,383	68,852
Subtotal of cash outflows from operating activities		**2,530,946**	**2,020,816**	**2,209,586**
Net cash flows from operating activities	Ⅷ.53	**205,087**	**214,426**	**169,869**
2.Cash flows from investing activities				
Cash received from disposal of investments		16,904	43,737	13,944
Cash received from investment income		10,292	5,455	4,971
Net cash received from disposal fixed assets, intangible assets and other long-term assets		6,577	1,212	1,842
Net cash received from disposal of subsidiaries and other operating units		78		
Other cash received relating to investing activities		3,484	14,111	10,991
Subtotal of cash inflows from investing activities		**37,335**	**64,515**	**31,748**

Consolidated Cash Flow Statement (Continued)
For the year ended 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
Cash paid for purchasing fixed assets, intangible assets and other long-term assets		78,584	82,185	114,060
Cash paid for acquisition of investments		94,540	44,447	49,701
Net cash paid to acquire subsidiaries and other operating units		1,288		60
Other cash paid relating to investing activities		11,226	38,850	76,935
Subtotal of cash outflows from investing activities		**185,638**	**165,482**	**240,756**
Net cash flows from investing activities		**(148,303)**	**(100,967)**	**(209,008)**
3.Cash flows from financing activities				
Cash received from capital contributions		1,425	6,265	130,236
Cash received from borrowings		898,205	943,099	1,055,385
Other cash received relating to financing activities		864	754	788
Subtotal of cash inflows from financing activities		**900,494**	**950,118**	**1,186,409**
Cash repayments of borrowings		890,258	954,718	1,056,587
Cash paid for dividends, profits distribution or interest		32,944	38,058	31,704
Other cash paid relating to financing activities		412	1,126	925
Subtotal of cash outflows from financing activities		**923,614**	**993,902**	**1,089,216**
Net cash flows from financing activities		**(23,120)**	**(43,784)**	**97,193**
4.Effect of foreign exchange rate changes on cash		**(2,394)**	**722**	**1,094**
5.Net increase in cash and cash equivalents		**31,270**	**70,397**	**59,148**
Add: Cash and cash equivalents at the beginning of the period		164,825	94,428	35,280
6.Cash and cash equivalents at the end of the period		**196,095**	**164,825**	**94,428**

Dai Houliang	Zhao Dong	Ye Guohua
General Manager	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2015, 2016, 2017

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Specialized reserve	Surplus reserve	General risk reserve	Retained earnings		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2015	**303,222**	**51,575**	**(33,146)**	**931**	**183,272**	**717**	**154,510**	**202,803**	**863,884**
Amount of increase （decrease） of this year	16,676	45,963	(5,438)	111	21,705	160	(10,019)	119,938	189,096
（1）Total comprehensive income			(5,438)				22,591	22,064	39,217
(2)Owner's devotion and decreased capital	16,676	45,963						108,712	171,351
1.Owner's devotion capital	16,676	45,561						84,805	147,042
2.Others		402						23,907	24,309
(3)Special reserve				111				109	220
1.Appropriation of special reserve				3,570				2,302	5,872
2.Use of special reserve				(3,459)				(2,193)	(5,652)
(4)Profit Distribution(decrease)					21,705	160	(32,610)	(10,947)	(21,692)
1.Appropritation to surplus reserve					21,705		(21,705)		
Including : Withdrawal Statutory surplus reserve					4,697		(4,697)		
Withdrawal other surplus					17,008		(17,008)		
2.Appropritation to general risk provisions						160	(160)		
3.Distribution to owner's							(10,745)	(10,947)	(21,692)
4.Others									
(5）Internal transferring of owner's equity									
Balance at 31 December 2015	**319,898**	**97,538**	**(38,584)**	**1,042**	**204,977**	**877**	**144,491**	**322,741**	**1,052,980**

Consolidated Statement of Changes in Equity (Continued)
For the year ended 31 December 2015, 2016, 2017

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	General risk reserve	Retained earnings		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2016	**319,898**	**97,538**	**(38,584)**	**1,042**	**204,977**	**877**	**144,491**	**322,741**	**1,052,980**
Amount of increase (decrease) of this year	6,010	23	14,733	49	396	451	(11,622)	9,880	19,920
(1)Total comprehensive income			14,733				8,357	20,993	44,083
(2)Owner's devotion and decreased capital	6,010	23						306	6,339
1.Owner's devotion capital	6,010							466	6,476
2.Others		23						(160)	(137)
(3)Special reserve				49				16	65
1.Appropriation of special reserve				2,984				1,562	4,546
2.Use of special reserve				(2,935)				(1,546)	(4,481)
(4)Profit Distribution(decrease)					396	451	(19,979)	(11,435)	(30,567)
1.Appropritation to surplus reserve					396		(396)		
Including : Withdrawal Statutory surplus reserve					396		(396)		
Withdrawal other surplus									
2.Appropritation to general risk provisions						451	(451)		
3.Distribution to owner's							(19,130)	(11,433)	(30,563)
4.Others							(2)	(2)	(4)
(5)Internal transferring of owner's equity									
Balance at 31 December 2016	**325,908**	**97,561**	**(23,851)**	**1,091**	**205,373**	**1,328**	**132,869**	**332,621**	**1,072,900**

Consolidated Statement of Changes in Equity (Continued)
For the year ended 31 December 2015, 2016, 2017

Items	Shareholder's equity attributed to parent company							Minority interest	Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Specific reserve	Surplus reserve	General risk reserve	Retained earnings		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2017	**325,908**	**97,561**	**(23,851)**	**1,091**	**205,373**	**1,328**	**132,869**	**332,621**	**1,072,900**
Amount of increase (decrease) of this year	466	(578)	(1,144)	169	4,042	132	(2,884)	5,463	5,666
(1)Total comprehensive income			(1,144)				10,393	26,618	35,867
(2)Owner's devotion and decreased capital	466	(578)			(496)		(102)	952	242
1.Owner's devotion capital	466	27						765	1,258
2.Others		(605)			(496)		(102)	187	(1,016)
(3)Special reserve				169				51	220
1.Appropriation of special reserve				3,022				1,598	4,620
2.Use of special reserve				(2,853)				(1,547)	(4,400)
(4)Profit Distribution					4,538	132	(13,175)	(22,158)	(30,663)
1.Appropritation to surplus reserve					4,538		(4,538)		
Including : Withdrawal Statutory surplus reserve					4,508		(4,508)		
Withdrawal other surplus					29		(29)		
2.Appropritation to general risk provisions						132	(132)		
3.Distribution to owner's							(8,504)	(22,197)	(30,701)
4.Others							(1)	39	38
(5)Internal transferring of owner's equity									
(6)Adjustment to asset and capital verification									
Balance at 31 December 2017	**326,374**	**96,983**	**(24,995)**	**1,260**	**209,415**	**1,460**	**129,985**	**338,084**	**1,078,566**

Dai Houliang	Zhao Dong	Ye Guohua
General Manager	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Company Balance Sheet
As at 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
Current assets				
Cash		10,607	19,108	25,068
Accounts receivable				
Prepayments				
Other receivables		37,356	41,227	20,473
Inventories		1	1	1
Non-current assets due within one-year		4,474	1,800	3,300
Other current assets		62	27	
Total current assets		**52,500**	**62,163**	**48,842**
Non-current assets				
Available-for-sale financial assets		4,095	2,188	688
Long-term equity investments	XV.1	337,007	340,936	344,069
Fixed assets		669	768	859
Construction in progress		27	1	9
Intangible assets		16,460	16,982	17,504
Other non-current assets		43,832	44,779	44,105
Total non-current assets		**402,090**	**405,654**	**407,234**
Total assets		**454,590**	**467,817**	**456,076**

Company Balance Sheet (Continued)
As at 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
Current liabilities				
Short-term loans		18,558	26,960	23,710
Accounts payable		9	4	4
Advances from customers				
Employee benefits payable		1,509	2,289	10
Taxes and fees payable		565	1,743	2,346
Interest payable		144	243	
Other payables		865	5,732	14,728
Non-current liabilities due within one year			400	
Other current liabilities			10,000	
Total current liabilities		**21,650**	**47,371**	**40,798**
Non-current liabilities				
Long-term loans		54	60	1,658
Bond payable		18,100	18,100	
Long-term payables		4,468	4,469	3,770
Deferred tax liabilities				
Total non-current liabilities		**22,622**	**22,629**	**5,428**
Total liabilities		**44,272**	**70,000**	**46,226**
Owner's equity				
Paid- in capital		326,374	325,908	319,898
Capital reserves		48,984	49,834	50,138
Other comprehensive income		(21,348)	(22,876)	(23,366)
Surplus reserves		50,472	48,928	48,838
Retained earnings		5,836	(3,977)	14,342
Total owner's equity		**410,318**	**397,817**	**409,850**
Total liabilities and owner's equity		**454,590**	**467,817**	**456,076**

Dai Houliang	Zhao Dong	Ye Guohua
General Manager	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Company Income Statement
For the year ended 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
1.Operating revenue	XV.2	**6,798**	**9,392**	**9,639**
2. Total operating costs		**1,640**	**4,851**	**2,999**
Incl.: Operating costs	XV.2			
Taxes and surcharges		77	297	540
General and administrative expenses		835	3,771	1,708
Financial expenses		728	783	751
Assets impairment losses				
Add: Investment income	XV.3	16,414	(1,846)	15,152
Gains from assets disposal ("-" for losses)				
Other income				
3.Operating profit		**21,572**	**2,695**	**21,792**
Add: Non-operating income				
Less: Non-operating expenses		65	64	55
4. Profit before taxation		**21,507**	**2,631**	**21,737**
Less: Income tax expense		1,114	1,730	2,332
5.Net profit		**20,393**	**901**	**19,405**
6.Other comprehensive income		**1,528**	**490**	**(3,491)**
7.Total comprehensive income		**21,921**	**1,391**	**15,914**

Dai Houliang	Zhao Dong	Ye Guohua
General Managert	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Company Cash Flow Statement
For the year ended 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
1.Cash flows from operating activities				
Cash received from sales and services		6,768	9,092	9,078
Refund of tax and surcharges				
Other cash received relating to operating activities		5,467	2,544	6,857
total of cash inflows from operating activities		**12,235**	**11,636**	**15,935**
Cash paid for goods and services				
Cash paid to and for employees		272	229	253
Payments of taxes and surcharges		2,342	2,373	1,660
Other cash paid relating to operating activities		6,499	2,320	7,688
Subtotal of cash outflows from operating activities		**9,113**	**4,922**	**9,601**
Net cash flows from operating activities	XV.5	**3,122**	**6,714**	**6,334**
2.Cash flows from investing activities				
Cash received from disposal of investments		13,187	6,019	10,972
Cash received from investment income		24,364	12,922	18,933
Net cash received from disposal fixed assets, intangible assets and other long-term assets				
Net cash received from disposal of subsidiaries and other operating units				
Other cash received relating to investing activities				
Subtotal of cash inflows from investing activities		**37,551**	**18,941**	**29,905**
Cash paid for purchasing fixed assets, intangible assets and other long-term assets		38	5	22
Cash paid for acquisition of investment		20,826	47,802	39,850
Net cash paid to acquire subsidiaries and other operating units				
Other cash paid relating to investing activities				4
Subtotal of cash outflows from investing activities		**20,864**	**47,807**	**39,876**
Net cash flows from investing activities		**16,687**	**(28,866)**	**(9,971)**

Company Cash Flow Statement (Continued)
For the year ended 31 December 2015, 2016, 2017

Items	Note	2017 RMB million	2016 RMB million	2015 RMB million
3.Cash flows from financing activities				
Cash received from capital contribution		467	6,004	16,676
Cash received from borrowings		24,208	62,760	32,730
Other cash received relating to financing activities				
Subtotal of cash inflows from financing activities		**24,675**	**68,764**	**49,406**
Cash repayments of borrowings		43,013	32,613	26,553
Cash paid for dividends, profits distribution or interest		9,971	19,909	11,534
Other cash paid relating to financing activities			50	
Subtotal of cash outflows from financing activities		**52,984**	**52,572**	**38,087**
Net cash flows from financing activities		**(28,309)**	**16,192**	**11,319**
4.Effect of foreign exchange rate changes on cash		**(1)**		**(1)**
5.Net increase in cash and cash equivalents		**(8,501)**	**(5,960)**	**7,681**
Add: Cash and cash equivalents at the beginning of the period		**19,108**	**25,068**	**17,387**
6.Cash and cash equivalents at the end of the period		**10,607**	**19,108**	**25,068**

Dai Houliang	Zhao Dong	Ye Guohua
General Manager	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

Company Statement of Changes in Equity
For the year ended 31 December 2015, 2016, 2017

Items	Shareholder's equity attributed to parent enterprise					Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2015	**303,222**	**50,259**	**(19,875)**	**29,898**	**24,619**	**388,123**
Amount of increase (decrease) of this year	**16,676**	**(121)**	**(3,491)**	**18,940**	**(10,277)**	**21,727**
(1)Total comprehensive income			(3,491)		19,405	15,914
(2)Owner's devotion and decreased capital	16,676	(121)				16,555
1.Owner's devotion capital	16,676					16,676
2.Others		(121)				(121)
(3)Special reserve						
1.Appropriation of special reserve						
2.Use of special reserve						
(4)Profit Distribution(decrease)				18,940	(29,682)	(10,742)
1.Appropritation to surplus reserve				18,940	(18,940)	
Including : Withdrawal Statutory surplus reserve				1,940	(1,940)	
Withdrawal other surplus				17,000	(17,000)	
2.Appropritation to general risk provisions						
3.Distribution to owner's					(10,742)	(10,742)
4.Others						
(5)Internal transferring of owner's equity						
Balance at 31 December 2015	**319,898**	**50,138**	**(23,366)**	**48,838**	**14,342**	**409,850**

Company Statement of Changes in Equity (Continued)
For the year ended 31 December 2015, 2016, 2017

Items	Shareholder's equity attributed to parent company					Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2016	**319,898**	**50,138**	**(23,366)**	**48,838**	**14,342**	**409,850**
Amount of increase (decrease) of this year	**6,010**	**(304)**	**490**	**90**	**(18,319)**	**(12,033)**
(1)Total comprehensive income			490		901	1,391
(2)Owner's devotion and decreased capital	6,010	(304)				5,706
1.Owner's devotion capital	6,010					6,010
2.Others		(304)				(304)
(3)Special reserve						
1.Appropriation of special reserve						
2.Use of special reserve						
(4)Profit Distribution(decrease)				90	(19,220)	(19,130)
1.Appropritation to surplus reserve				90	(90)	
Including : Withdrawal Statutory surplus reserve				90	(90)	
Withdrawal other surplus						
2.Appropritation to general risk provisions						
3.Distribution to owner's					(19,129)	(19,129)
4.Others						
(5)Internal transferring of owner's equity						
Balance at 31 December 2016	**325,908**	**49,834**	**(22,876)**	**48,928**	**(3,977)**	**397,817**

Company Statement of Changes in Equity (Continued)
For the year ended 31 December 2015, 2016, 2017

Items	Shareholder's equity attributed to parent company					Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2017	**325,908**	**49,834**	**(22,876)**	**48,928**	**(3,977)**	**397,817**
Amount of increase (decrease) of this year	**466**	**(850)**	**1,528**	**1,544**	**9,813**	**12,501**
(1)Total comprehensive income			1,528		20,393	21,921
(2)Owner's devotion and decreased capital	466	(850)		(495)	(37)	(916)
1.Owner's devotion capital						
2.Others	466	(850)		(495)	(37)	(916)
(3)Special reserve						
1.Appropriation of special reserve						
2.Use of special reserve						
(4)Profit Distribution				2,039	(10,543)	(8,504)
1.Appropritation to surplus reserve				2,039	(2,039)	
Including : Withdrawal Statutory surplus reserve				2,039	(2,039)	
Withdrawal other surplus						
2.Appropritation to general risk provisions						
3.Distribution to owner's					(8,504)	(8,504)
4.Others						
(5)Internal transferring of owner's equity						
6. Adjustment to asset and capital verification						
Balance at 31 December 2017	**326,374**	**48,984**	**(21,348)**	**50,472**	**5,836**	**410,318**

Dai Houliang	Zhao Dong	Ye Guohua
General Manager	Chief Financial Officer	Head of the finance department

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015, 2016, 2017

Ⅰ. Company's profile

China Petrochemical Corporation (hereinafter referred to as "the Company") is a stated-owned company, established on 27 July 1998. The Company is registered and headquartered in Beijing with a registered capital of RMB 274.87 billion. The person in charge of the Company is Dai Houliang.

The Company is one of the largest integrated energy and chemical companies with upstream, midstream and downstream operation in China, established on the basis of former China Petrochemical Corporation according to the Circular on Establishment Program of Sinopec Group by the State Economic and Trade Commission and Announcement on the articles of association of Sinopec Group (Guo Jing Mao Wei [1998] No.458). The Company's predecessor is China Petrochemical Corporation established in 1983 as the economic entity with the qualification of a legal person under direct control by the State Council and is responsible for the national petrochemical production construction and import and export business planning. In July, 1998, China carried out significant reform and restructuring on the petroleum and petrochemical industry, Sinopec Group completely merged China Eastern United Petrochemical (Group) Company Limited and finished transfer with China National Petroleum Corporation and hand-over with provincial/ municipal as well as specifically designated municipal petroleum companies, hence, it became a state-owned company, functioning as a state-authorized investment organization in which the state holds the controlling share.

The Company and its subsidiaries' (hereinafter referred to as "the Group", "Sinopec Group") key business activities include: exploration and development of petroleum and natural gas, petroleum refining, petrochemical, petroleum products wholesale and retail, exploration and designing, construction and installation of petroleum and petrochemical projects.

Sinopec Group ranked the third in Fortune Global 500 in 2017.

Sinopec Group has 38 wholly-owned companies and subsidiaries (see Note. VII), including China Petroleum & Chemical Company (Sinopec Corp.) listed on stock markets in Hong Kong, New York, London and Shanghai, Sinopec Oilfield Service Corporation (SSC) listed on stock markets in Hong Kong and Shanghai, Sinopec Engineering (Group) Co., Ltd. (SEG) listed on stock markets in Hong Kong, Sinopec Oilfield Equipment Corporation (SOFE) listed on stock markets in Shenzhen, as well as 33 unlisted companies.

Ⅱ. Basis of preparation

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises and corresponding application guidance, interpretations and other related provisions issued by the Ministry of Finance (collectively, " Accounting Standards for Business Enterprises ").

The financial statements of Sinopec Group have been prepared on a going concern basis.

Ⅲ. Statement of compliance with the Accounting Standards for Business Enterprises

These financial statements for the Relevant Periods have been prepared in compliance with the Accounting Standards for Business Enterprises to truly and completely present the consolidated and company's financial position as at 31 December 2015, 2016 and 2017 and the consolidated and company's operating results and cash flows for the Relevant Periods.

Ⅳ. Significant accounting policies and accounting estimates

1. Accounting period

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

2. Functional currency

The Group's functional currency is RMB.

3. Accounting basis and valuation principle

The Company adopts the accrual basis of accounting. Except for certain financial instruments, the financial statements are prepared under the historical cost convention. In the event that impairment of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

4. Business combination

(1) Business combinations under the same control

For the business combination involving entities under common control, the assets and liabilities that are obtained in the business combination shall be measured at their original carrying amounts at the combination date as recorded by the party being combined, except for the adjustments of different accounting policies. The difference between the carrying amount of the net assets obtained and the carrying amount of assets paid shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess difference shall be adjusted to the retained earnings.

The fees directly attributable to business combination are counted in current profit and loss.

(2) Business combination not under the same control

For business combinations involving entities not under common control, the consideration for each combination is measured at the aggregate fair value at acquisition date, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. At acquisition date, the acquired assets、 liabilities or contingent liabilities of acquiree are measured at their fair value.

The intermediate fees incurred in business combination, such as auditing, legal services and estimating consultant, and other relevant administration fees would be taken account into current profit and loss at their occurrence dates. If the consideration includes equity instruments, related commission fees should be netted by the instruments' initial record.

Where the cost of combination exceeds the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and measured on the basis of its cost minus accumulative impairment provision; Where the cost of combination is less than the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after verification.

Business combinations involving enterprises not under common control and achieved in stages.

In the consolidation financial statements, the combination cost is the sum of consideration paid at acquisition date and fair value of the acquiree's equity investment held prior to acquisition date; the cost of equity of the acquiree held prior to acquisition date shall be re-measured at the fair value at acquisition date, the difference between the fair value and the carrying amount shall be recognized as investment income or loss for the current period. Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment profit or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

5. The methods preparing for consolidated financial statements

The consolidated scope of the consolidated financial statements is determined by the basis of control, including the Group and the subsidiaries.

This control refers to the power affecting acquiree, which means the acquirer could enjoy the varying returns through participating acquiree's operational management, and influences the returns by flexing the power. The acquiree's financial condition, operating results and cash flow shall be considered into the scope of consolidated financial statements, staring from the day control gained to the departure of control.

The consolidated financial statements are based on the financial statements of the Group and its subsidiaries, intra-group transactions and balances shall be offset. Either accounting period or accounting policy is inconsistent among the Group and subsidiaries, necessary adjustment to subsidiaries must be made.

A subsidiary acquired through a business combination involving entities under common control in the reporting period shall be included in the scope of the consolidation from the beginning of the combination date, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date.

The non-controlling interests in the Group's subsidiaries are presented separately in consolidated balance sheet as minority interest. The subsidiaries' current profits and losses attributable to minority interests are presented in consolidated income statement. Even if the losses suffered by minorities have exceeded the part of minority interests initially recognized, the differences should still writes down the non-controlling interests.

Transactions that acquire the minority interests of subsidiaries or dispose part of equity investment but not lose control of this subsidiary are accounted for equity transactions that adjust shareholders' equity attributable to the parent and minority interests to reflect the changes of equity in subsidiaries. The difference between the adjustment of minority interests and the fair value of consideration paid/received shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

If a business combination is achieved in stages, acquiree's equity interest previously held by acquirer would be re-measured in fair value at the acquisition date. Current investment income should recognise the differences between its carrying amount and fair value. Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date

When an enterprise loses control over investee because of disposing part of equity investment or other reasons, the remaining part of the equity investment should be re-measured at fair value at the date when losing control over the investee; the sum of the considerations and the fair value of remaining part of the equity investments, deducting previous proportion of net assets calculated continuously since the acquisition date, should be recorded in profit or loss for current period of disposal, while goodwill are written down. Other comprehensive income related to the investment on previous subsidiaries are transferred into current profit and loss at the date of control loss, excepting the part caused by re-measurement of investee's defined benefit plane or changes in investee's net asset.

Proportionally disposing acquiree's equity in stages resulted in losing control belongs to package deal, consolidated financial statements should recognise all differences between disposal proceeds and their corresponding proportion of subsidiaries' net asset before control losing as other comprehensive income, the accumulated amount is regarded as current profit and loss when control is lost.

6. Joint arrangement and joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. The Group's joint arrangement is divided into joint operation and joint venture.

(1)Joint operation

A joint operation is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the assets, and obligations for the liabilities.

A joint operator shall recognize in relation to its interest in a joint operation and choose specified accounting treatment based on ASBE as follows:

a. its assets, including its share of any assets held jointly;

b. its liabilities, including its share of any liabilities incurred jointly;

c. its revenue from the sale of its share of the output arising from the joint operation;

d. its share of the revenue from the sale of the output by the joint operation;

e. its expenses, including its share of any expenses incurred jointly.

(2)Joint ventures

A joint venture is a joint arrangement whereby the Group that has joint control of the arrangement has rights to the net assets of the arrangement.

7. Recognition basis of cash and cash equivalents

Cash and cash equivalents include cash, bank deposit, other monetary assets and short-term non-equity investment. Non-equity investment that can be recognized as cash equivalents shall conform to the following: short-term (expiring within 3 months from purchase date), highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Foreign currency translation

(1) Transactions in foreign currency

Transactions denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the dates of the transactions or at the date of the last month-end day. Foreign exchange transactions or others related shall be translated into functional currency at the actual exchange rate which is bid price or selling price of the bank.

Exchange differences arising on the settlement of monetary items or on the translation of monetary items at rates different from those at which they were translated on initial recognition during the period in previous financial statements should be recognized in profit or loss for the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency should be translated into the reporting currency using the spot exchange rate at the date of the transaction. Accordingly, at each balance sheet date, the reporting currency amount of non-monetary items remains the same in the transaction. At each balance sheet date, non-monetary items that are measured at fair value in a foreign currency should be translated into the reporting currency using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are included in profit or loss for the current period. Foreign currency translation difference of specific borrowings accounts which is directly attributable to the construction or production of assets eligible for capitalization is capitalized according to regulations and included in the cost of related assets.

(2)Translation of financial statements in foreign currency

For subsidiaries that use foreign currency as their reporting currency, when financial statements are translated from the foreign currency into RMB, all asset and liability accounts should be translated into RMB using the market exchange rates on the consolidation date. All equity accounts, except for the "undistributed profit" account, should be translated into RMB using the market exchange rates when the transactions take place. All accounts in the income statement and those items relating to profit distribution should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. All accounts in the cash flow statement should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. Exchange differences arising from the translation of financial statements are accounted for separately as "Foreign currency translation differences" of undistributed profit accounts in the balance sheet. Differences arising from the translation of financial statements are separately presented as the "other comprehensive income" in the shareholders' equity of the balance sheet.

9. Financial instruments

Financial instrument refers to any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity

(1)Classification and measurement of financial assets

The Group classified its financial assets at initial recognition into the following categories on the purpose of acquiring assets and assuming liabilities: financial assets and measured at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets. Financial instruments are initially recognized at fair value. For financial assets measured at fair value through profit or loss, commission fees directly attribute to current profit and loss, while others' are considered in initially recorded amount.

A. Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss includes held for trading and those designated upon initial recognition as at fair value through profit or loss. This kind of financial liabilities are subsequently measured at fair value, all gains and losses, arising from changes in fair value and dividend and interest relevant with the financial liabilities are recognized in profit or loss for the current period.

B. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity whereby the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method, and gains or losses arising from the derecognition, impairment or amortization thereof should be recognized in profit or loss for the current period.

C. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market including account receivables and other receivables (Note IV.11). Receivables' measurements accept effective interest method, and consider amortized cost in subsequent period. The gains and losses of receivables arising from derecognition, impairment or amortization is recognised in profit or loss for the current period.

D. Available-for-sale financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale and those financial assets not classified as above mentioned. AFS financial assets are subsequently measured at fair value, the discount or premium are amortized using the effective interest method and recognised as interest income. The gains and losses arising from changes in fair value of AFS financial assets (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognised in profit or loss for the current period) are recognised as other comprehensive income, until the financial assets are derecognised, are transferred to profit or loss for the current period. Interest income and dividends related to the AFS financial assets are recognised as profit or loss for the current period.

(2) Classification and measurement of financial liabilities

The Group classified its financial liabilities at initial recognition into the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities. For the financial liabilities not measured at fair value through profit or loss, its initial recognition take account into related commission fees.

A. Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss includes held for trading and those designated upon initial recognition as at fair value through profit or loss. This kind of financial liabilities are subsequently measured at fair value, all gains and losses, arising from changes in fair value and dividend and interest relevant with the financial liabilities are recognized in profit or loss for the current period

B. Other financial liabilities

Derivative financial liabilities which are linked to equity instrument that is not quoted in an active market and its fair value cannot be reliably measured and settled by delivering the equity instrument are subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition or amortization is recognised in profit or loss for the current period.

Financial assurance contracts are initially recognized at fair value. Choosing the larger one among estimated liabilities and results of initial recognition minus accumulated amortized costs and recording it in subsequent periods are required.

(3) Impairment of Financial Assets

The Group has to check book value of financial instruments out at balance sheet date. If there are objective evidences indicating their values decline, provision for impairment losses must be prepared. These objective evidences refer to events affecting future expected cash flow actually incur before initial recognition, plus the reliable measurement to effects of these events.

A. Financial assets measured at amortized cost

If there are objective evidences showing that the financial assets have been impaired, those financial assets must be reduced to present value of future cash flow, excluding future credit loss still not happened yet, the deduction part is regarded as current profit & loss. Ensuring the present value of expected cash flow is a result discounted by original effective rate while considering the value of relevant guarantees.

Significant financial assets must undertake impairment test individually, if there are objective evidences showing that impairment loss has incurred, ensuring its recognition and being regarded as current profit and loss must be undertaken. For insignificant financial assets including packages of financial assets with similar credit risk, impairment test could be accepted individually or totally. When there is no abnormal find during the individual impairment test (for the ones including significant and insignificant financial asset), packaging them with similar credit risk and then testing their possibilities of impairment are required. A separately ensured impairment loss from a financial asset should accept impairment test, excluding from the packages of financial assets with identical credit risks.

If there are objective evidences suggesting that the value of an impaired financial asset measured at amortized cost has recovered, and these evidences are related to the causes of impairment, the originally identified impairment loss should be reversed. However, the reversed value cannot exceed amortized costs under the circumstance of not being impaired.

B． Available-for-sale financial assets

If there's objective evidence that AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in capital reserve are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortized, current fair value and impairment losses previously recognised in profit or loss.

If, in a subsequent period, the fair value of financial assets increases and the increase can be related objectively to an event incurring after the impairment was recognised, the previously recognised impairment losses are reversed and charged to profit or loss for the current period. The impairment losses of AFS equity instruments shall not be reversed through profit or loss.

C． Financial assets measured at cost

If there's objective evidence that the financial assets are impaired, the difference between the carrying amount and the present value discounted at the market rate of return on future cash flows of the similar financial assets shall be recognized as impairment loss in profit or loss. The impairment loss recognized shall no longer be reversed.

D. Applied scope and methods of finance company for general provisions and impaired provisions of loans approved

Finance company prepares general provision and impaired provision of loan approved in according with No. 42 order named ""financial regulations on financial institutions"" and published by finance ministry, and ""Regulations on Creation and Management of Provisions by Financial Institutions"" [Treasury Documentation Ref. [2012]20.

General provisions are calculated by 1.5% balance amount of risky assets deducting provisions prepared previously at the end of the year.

The scope of impaired lending provision includes short-term loan, mid and long term loan, loan from banking consortium, default loan, non-accrual loans, discounted assets, and lending funds. According to "Guideline on assets classification based on risk for non-financial institutions" published by CBRC. Credit assets are divided into norm, the one needed focus, subprime, doubt and loss. After comprehensively considering the factors that might lead loss, such as borrowers' abilities to repay, repayment occurred, reasonable value of guarantee, guarantors' profile, impairment provisions on loan are prepared correspondingly under the results of classification. The rates for preparing impairments are presented below:

Norm: 1%； The one needed focus: 2%-10%; Subprime: 20%-30%; Doubt: 50%-60%; Loss: 100%;

(4) Measurement principles of gains and losses from financial assets and financial liabilities

The gains and losses caused by fair value changes of financial assets or financial liabilities measured at fair value through profit or loss are regarded as current profit and loss. Gains and losses from available-for–sale financial assets or financial liabilities, excluding losses attributed by impairment and exchanges, are directly added into owner's interest, and transferred into current profit and loss when derecognition is decided. The exchange differences and interests calculated by effective-rate of available-for sale assets are regarded as current profit and loss. Dividends from available-for-sale assets are also regarded as current profit and loss after the investees claim.

Confirmation methods of financial assets' and financial liabilities' fair value are presented in note IV.31

For financial assets and financial liabilities measured at amortized costs by effective rates, the gains or losses are directly attributed to current profit and loss under the circumstances such as assets' derocognition, impairment and amortization. Effective rate methods refer to financial assets and liabilities (including packages of financial assets or liabilities) using effective rates to calculate their amortized costs, interest income and interest expenditure. Effective interest rates are those applied in discounting expected cash flows of financial assets or financial liabilities, which makes the present value of cash flows generated by them equal to their book value.

During the calculation of effective rates, the Group predicts future cash flow based on the contracts terms of financial assets or financial liabilities (excluding future credit loss), and considers payable or receivable various fees, commission fees, discounts and premiums of each sides, which are composites of effective rates.

If the requirements of entire derecognition are met, the differences between carrying amount of financial assets dereccognized and the consideration price received with accumulated other comprehensive caused by continuous fair value changes are regarded as current profits and losses.

If the requirements of partial derecognition of a financial asset are met, the carrying amount is derecognized according to the ratio of the derecognition and remaining in fair value, and the differences between the consideration price received and the carrying amount derecognized with accumulated other comprehensive income caused by fair value changes are current profit and losses.

(5)Transfer of Financial Assets

Transfer of financial assets refers to when the Group (the transferor) transfers or delivers a financial asset to a party (the transferee) other than the issuer of the financial asset.

When the Group transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset should be derecognized. When the Group retains substantially all the risks and rewards of ownership of a financial asset, the Group should continue to recognize the financial asset.

The Group neither transfers nor retains substantially all the risks and rewards of ownership, shows as the following circumstances: if the Group has forgone control over the financial assets, derecognize the financial assets and verify the assets and liabilities; if the Group retains its control of the financial asset, the financial asset is recognized to the extent of its continuing involvement in the transferred financial asset and recognize an associated liability is recognized.

(6)Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised when the Group becomes one party of financial instrument contracts.

If one of the following conditions is met, the financial assets are terminated:

① The right of the contract to receive the cash flows of financial assets terminates

② The financial asset has been transferred, and is in accordance with the following conditions for derecognition.

If the obligations of financial liability have been discharged in total or in part, derecognize all or part of it. If the Group (debtor) makes an agreement with the creditor to replace the current financial liability of assuming new financial liability which contract provisions are different in substance, derecognize the current financial liability and meanwhile recognize as the new financial liability

If the financial assets are traded routinely, they are recognised and derecognised at the transaction date.

10. Hedging

When hedging relationships are initially identified, the Group shall point out the relevant relationship and record it with objectives of risk management and hedging strategy officially. The content recorded shall include hedging tools, relevant items and transactions hedged, risks prevented and how the Group evaluates effectiveness of hedging tools intended to avoid risks brought by fair value changes. The hedge is assessed by the Group for effectiveness on an on-going basis and determined to have been highly effective throughout the accounting periods for which the hedging relationship was designated.

Although transactions incurred by hedging tools provide effective economic hedge, some of them that cannot meet requirements of applicable hedge accounting, regarding as held-for-transaction derivatives, shall directly matter current profit and losses by their fair value changes. Hedging strictly qualified with hedge accounting is accounted in terms of following policies.

(1) 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 items, fair value changes of these items are attributable to a specific risk affecting current profits and losses. 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. The gain or loss from re-measuring the hedging instrument at fair value is recognised in profit or loss.

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.

When an unidentified commitment is pointed as hedged item, accumulated fair value changes belonging to this commitment is regarded as an asset or a liability, gains and losses generated are current profit and losses, same treatment to fair value changes of hedged tools.

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.

(2) Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows. This variability is originated from specific risk related to an identified asset, liability or expected transaction most likely to occur, and will affect the Group's profit and loss. 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. 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 the cash flows generated by hedged items affect current profits and losses, gains and losse recorded as shareholder's equity are transferred to current profit and losses. 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.

11. Accounts receivable

Receivables of the Group include receivables and other receivables.

(1)Significant receivables with bad debt provisions

Clues or criterions to decide a significant receivable: if the individual receivable account for 10% of total receivables, it is significant.

Bad debt provision method for significant receivables: the significant receivables shall be tested singly, if there are objective evidences showing the values declined, the bad debt provisions are prepared according to the differences between the present values of expected cash flows and carrying amounts.

If the significant receivables are not found values declined after single tests, they should be combined for preparing bad debt provisions.

(2)Insignificant receivables with bad debt provisions

Reasons for singly preparing bad debt provisions	Receivables involving litigation fees and deterioration of customers' credit
Methods for preparing bad debt provisions	In terms of the differences between present values of expected cash flows and carrying amounts

(3)Preparation of bad debt provisions according to combinations

For the receivables experienced single tests (including significant and insignificant receivables) and insignificant receivables free to single test, the bad debt provisions are prepared in the light of combinations characterized by credit risk as following:

Combination types	**Clues to determine combination types**	**Methods of preparing bad debt provisions according to combinations**
Aging group	Aging's situation	Aging analysis
Group of related parties	Relationships	Estimating expected cash flow based on historical losses
Other specific group (note)	Characteristics of items	Estimating expected cash flow based on historical losses

Note: "other specific group" refers to special items related to provisions for employees, housing maintenance funds, etc.

The standards for identifying the Group's bad debt losses and principles of write-off:

If any of following situations displayed occurs, bad debts are identified after designated process, provisions prepared are written off.

A. When debtors are legally bankrupt or cancelled, the uncollectable parts of receivables are regarded as bad debt losses after getting the documents about bankruptcy, such as bankrupt claims, cancelled commerce registration, cancelled licence or business close ordered by government.

B. The borrower is dead or legally claimed miss or dead, the properties or heritage left cannot fit his obligations, the Group treats the receivables related as bad debt losses after getting legal documents.

C. For receivables involving litigation,

D. For a receivable that have been defaulted over 3 years with collection requirement records, the part after deducting payables to the borrower and compensation from responsible staffs is regarded as bad debt losses when the Group has no business relationships with this borrower in 3 years.

E. For a receivable that have been defaulted over 3 years, if the borrower residing abroad, Hong Kong, Macao or Tai Wan, failure to repay the debt after requirement, has no business relationship with the Group over this 3 years, the receivable is treated as bad debt losses after getting the terminating receivable advice form aboard intermediate or the confirmation of borrower's death or bankruptcy from Chinese consulate. Properties or heritage left by a dead or bankrupt borrower cannot repay his debt.

F.It has been so long since debtors start to default, and there are sufficient evidences indicating receivables are nearly impossible to be collected.

12. Inventories

(1)Classification of inventories

The Group classified the inventory as raw material, goods in process, finished goods, turnover materials, materials in transit, completed but not billed balances arising from construction contract and labour project costs.

(2)Measurement method of cost of inventories

Inventories were recorded at actual cost when acquired. Raw materials, products, and inventories (other than reserve crude oil) are issued using a weighted average method or plan cost. The difference between the planned cost and the actual cost is accounted for separately through the cost variance account. The month ends and the carry-over is completed. The cost difference between the use and delivery of inventories shall be adjusted to the actual cost; and for the reserve crude oil, the sales shall be converted to the replacement purchase cost to carry forward the cost of sales. If the sales of crude oil through serial replacement do not complete the purchase on the balance sheet date, the sale proceeds will be carried forward based on the amount of sales revenue. After the replenishment is completed, the difference will be adjusted based on the actual purchase cost. For the inventory that cannot be replaced, the inventory purchased and manufactured specifically for a specific project, and the cost of providing labor services, the cost of issuing inventory is determined by the individual valuation method. Low-value consumables shall be amortized with a one-off amortization method when they are used. Other turnover materials are generally subject to a one-off amortization method. Turnover materials with a relatively large value and a long lifespan are amortized over the benefit period.

(3)Method for provision for obsolete inventories

Any excess of the cost over the net realisable value of inventories is recognised as a provision for obsolete inventories, and is recognised in profit or loss. The Group usually recognises provision for decline in value of inventories by a single inventory item, but for reserve crude oil. If the factors caused the value of inventory previously written-down have disappeared, the provision for decline in value of inventories previously made is reversed.

(4)Measurement of net realisable value

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 and relevant taxes. Apart from reserve crude oil, the net realisable value is measured based on the verified evidences and considerations for the purpose of holding inventories and the effect of post balance sheet events. The commercial reserve crude oil is based on crude oil prices estimated to be in the future (five years) and takes into account the occurrence of transportation charges, oil and oil surcharges.

(5)Inventory system

The inventories are counted with a perpetual inventory system.

13. Long-term equity investments

The group's long-term equity investments include those that the Group is able to exercise controls and significant influence over the investees and also the investments to joint ventures. Joint ventures are the investees over which the Company is able to exercise joint control together with other ventures.

(1) Recognition of investment cost

The group's long-term equity investments are measured at the cost of investments on acquisition. The cost of investments includes the assets paid for the investments, liabilities incurred or assumed and the fair value of issuing equity securities, as well as directly associated costs. While the cost of the long-term investment acquired from the business combination under common control is recognized as the carrying amount of combined party's equity recorded in the ultimate controlling party's consolidated financial statements at the combination date.

(2) Subsequent measurement and recognition of profit

Where the Group is able to exercise control over the investee, the long-term equity investment is accounted for using the cost method; where the Group has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method.

A. Long-term equity investment accounted for using the cost method

For long-term equity investment which is accounted for using the cost method, investment income is recognized in profit or loss for the current period as the cash dividend or profit announced and distributed, except for those cash dividend or profit which have already included in the actual payment or consideration of offer when the investment was made.

B. Long-term equity investment accounted for using the equity method

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair values of the investee's identifiable net assets, no adjustment is made to the initial investment cost; where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets, the difference is charged to profit or loss for the current period, and the carrying amount of the long-term equity investment is adjusted accordingly.

For long-term equity investments accounted for using the equity method, the Company recognizes the investment income according to its share of net profit or loss of the investee, and the carrying amount of the long-term equity investments shall be adjusted accordingly; The carrying amount of the investment is reduced by the Company's share of the profit distribution or cash dividends declared by an investee; for changes in owners' equity of the investee other than those arising from its net profit or loss, other comprehensive income and profit distribution, the carrying amount of the long-term equity investment shall be adjusted and recognized to shareholder's equity.

C. The transform between the cost method and the equity method in the measurement

If an entity has significant influences or can implement joint control over investees due to additional investment, the initial investment cost is recognized as the sum of the fair value of the original portion of equity investment and the additional investment cost under equity method. For the original portion of equity investment classified as available for sale, the difference between the fair value and carrying amount and cumulative changes in fair value recognized as other comprehensive income shall be recognized as current profit of loss under equity method.

If an entity loses joint control or has no significant influence over investees due to the elimination of parts of the equity investment, the surplus equity after disposal shall be recognized in accordance with the difference between fair value and carrying amount at the date of loss of joint control or significant influence. Other comprehensive income of original equity investment recognized under equity method shall be recognized in accordance with the same foundation used by the investees when dispose the relevant assets or liabilities directly in the termination of equity method. Other changes of owners' equity related to the original equity investment shall be transferred into profit or loss for current period.

(3) Basis for recognition of control, joint control or significant influence over an investee

Control refers to the Group has the ability to influence the return amounts which are enjoyed by the Group through participation in the invested entity related activities by using the power to the invested entity. Subsidiaries refer to the subjects controlled by the Group (including enterprises, integral part of the invested entity, structured entity controlled by enterprises .etc.).

Joint control refers to any joint venture party alone cannot control the production and operation activities of the joint venture, decisions related to the basic operating activities of joint venture should require the unanimous consent of the parties sharing control.

Significant influence refers to the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. 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. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

(4) Disposition of the long-term equity investments

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price shall be included in the current profits and losses. If any change other than the net profits and losses of the invested entity occurs and is included in the owner's equity, the portion previously included in the owner's equity shall, when disposing of a long-term equity investment measured by employing the equity method, be transferred to the current profits and losses according to a certain proportion.

If an entity loses joint control or has no significant influence over investees due to the elimination of parts of the equity investment, the surplus equity after disposal shall be recognized in accordance with the difference between fair value and carrying amount at the date of loss of joint control or significant influence. Other comprehensive income of original equity investment recognized under equity method shall be recognized in accordance with the same foundation used by the investees when dispose the relevant assets or liabilities directly in the termination of equity method. Other changes of owners' equity related to the original equity investment shall be transferred into profit or loss for current period.

If an entity loses control over investees due to the elimination of parts of the equity investment , the surplus owners' equity that are able to implement joint control or have significant influence over investees shall be measured at equity method and are deemed to be recognized under equity method since the acquisition date. The surplus owners' equity that are unable to implement joint control or have no significant influence over investees shall be processed in accordance with "ASBE 22-Recognition and Measurement of financial instruments", and the difference between fair value and carrying amount at the day of loss of control shall be recognized as profit or loss for current period.

(5) Impairment provision of the long-term equity investments

The impairment assessment and provision accrual on investments in subsidiaries, associates and joint ventures entities are stated in Note (see Note IV.22).

14. Entrusted Loan

(1) The method of pricing of entrusted loan and recognition of interest

The interest receivable is calculated in accordance with principal and nominal interest rate designed in contract at the end of fiscal year. Yield from investment is ensured by amortization cost and real interest rate, their difference is counted in entrusted loan category (interest adjustment).

(2) Identification and measurement for the provision of entrusted loan.

The entrusted with possibility of devaluation would be wholly checked at the balance sheet date, if it can be proved that the book value of entrusted loan is higher than recoverable amount, the differences between them is regarded as provision amount. The interest income ensured by amortization cost and real interest rate is accountable to investment yield, against entrusted loan's provision, interest receivable from the calculation of principal and interest proposed in contract should be registered in off-balance sheet.

15. Fixed assets

(1)Recognition of fixed assets

Fixed assets refer to tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and have a useful life of more than one year. An item of fixed asset should be recognized if, and only if it is probable that future economic benefits associated with the asset will flow into the Group and the cost of the asset can be measured reliably.

(2)Fixed assets measurement

Fixed assets are initially measured at actual costs of acquisition.

(3)Classification of fixed assets and depreciation policy

The Group classifies the fixed assets and recognizes the expected useful lives, estimated net residual values rates and the depreciation method of the fixed assets according to China Petrochemical Enterprise Standard Q/SH0417-2011 "Classification of fixed assets, code and confirmation rules of single fixed assets"..

All the fixed assets are depreciated, except the fixed assets that are depreciated fully but be used continually or the land that is valued individually as fixed asset according to the rules of audit of assets.

The Company uses the straight line method for depreciation. Without considering impairment provision, the Company's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Categories	Estimated useful lives	Residual percentage%	Annual depreciation rates
Plant and buildings	12-40	3	2.43-8.08
General equipment	4-20	3	4.85-24.25
Special equipment for oil and gas	8-18	3	5.39-12.13
Special equipment for petroleum and chemical industry	10-20	3	4.85-9.70
others	4-30	0-3	3.23-25.00

For the fixed assets that have been provided for impairment loss, and the fixed assets that the estimated useful life and the estimated net residual value have been changed, the related depreciation charge and depreciation rate is recalculated based upon the adjusted carrying amounts over their remaining useful lives. But the accumulated depreciation having been provided previously will not be adjusted when the amount of depreciation is adjusted due to depreciation reserve incurred.

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Fixed assets under finance lease should be depreciated over the remaining useful life if there is reasonable certainty that the Group is to obtain ownership of the leased asset by the end of the lease term. If there is no reasonable certainty that the Group is to obtain ownership of the leased asset by the end of the lease term the asset should be depreciated over the shorter of the lease term and its remaining useful life.

(4)Subsequent expenditure of the fixed assets

Subsequent expenditure of the fixed assets includes the renovation spending and the cost of repairs in the using progress.

The renovation spending should be recognized in the carrying amount of the item if the recognition criteria are satisfied and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets not satisfying the recognition criteria of fixed assets are recognised in profit or loss as incurred.

(5)Provision for impairment of fixed assets

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note IV.22).

16. Oil and gas properties

(1) Classification, recognition and measurement of oil and gas properties

The oil and gas properties of the Group include drilling activities and other relevant activities, the rights and interests of proved and unproved mining areas. An item of oil and gas properties should be recognized and be measured initially according to the actual cost occurred if:

A. it is probable that future economic benefits associated with the asset will flow to the Group; and

B. the cost of the asset can be measured reliably.

After the obtainment of the rights and interests of proved and unproved mining areas, the initial costs of the oil and gas properties shall be measured according to the costs of obtainment.

Where an enterprise eventually abandons an unproved mining area due to its failure to discover and prove any economically exploitable reserve therein, its book value at the time of abandonment shall be recorded in the profits and losses of the current period.

With a view to the drilling exploration disbursements, after a well is completed if:

A. It is sure that an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling this well shall be carried forward as cost of the well and relevant facilities;

B. It is sure that no economically exploitable reserve is discovered and proved in the well, the result of the disbursements for drilling this well less the net salvage value shall be recorded in the profits and losses of the current period.

C. It is not sure whether or not an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling the well shall be temporarily capitalized within 1 year after it is completed. If one year has lapsed since the completion of the well, it is still impossible to make sure whether or not an economically exploitable reserve is discovered and proved in a well, if the following conditions are satisfied simultaneously, the capitalized disbursements for drilling the well shall continue to be temporarily capitalized, otherwise they shall be recorded in the profits and losses of the current period:

a. A sufficient reserve has been discovered in the well, but in order to make sure whether or not it is an economically exploitable reserve, it is necessary to carry out further exploration activities in order to make sure whether or not it is an proved economically exploitable reserve; and

b. Further exploration activities are being implemented or are about to be implemented under a specific plan.

D. Where a new economically exploitable reserve is discovered and proved in a well for which the drilling exploration disbursements have been expensed, no adjustment may be made to the expensed drilling exploration disbursements and the disbursements for re-drilling exploration and for the completion of the well shall be capitalized.

The disbursements for drilling exploration and the related auxiliary equipment shall be capitalized.

The non-drilling exploration disbursements shall be recorded in the profits and losses of the current period at the time of incurrence.

The disbursements for the development of oil and gas shall be transferred into the costs of the oil and gas properties, when they reach the condition for its intended use (or a well is completed).

(2) Depletion policy of the oil and gas properties

The companies of oil and gas exploration affiliated the Group compute the depletion of oil and gas properties by adopting the output method.

(3) The disposal costs of the oil and gas properties

For the Group' s obligation to do the discarded dispose for any mining area, if this obligation satisfies the conditions for the recognition of the expected liabilities, it shall increase the corresponding book value of oil and gas properties and recognize this obligation as an expected liability. The disposal costs of oil and gas properties are amortized by instalment according to the depletion policy of the related properties. The differences between the present value and the estimated future dismantlement are recorded in the financial expenses of the current period and recognized the expected liabilities over their estimated useful lives.

The disposal costs of the oil and gas properties without extraction of mine disposal fees are recorded in the profits and losses of the current period at the time of incurrence.

(4) The provision for impairment of the oil and gas properties

Oil and gas properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note IV.22).

17. Construction in progress

(1) Valuation of construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including interest costs that shall be determined in light of the actual cost incurred of the specially borrowed loan and a general borrowing used for the acquisition and construction of assets eligible for capitalization.

(2) The standards and time-point of the construction in progress transferred to fixed assets

All the expenditure incurred for the construction in progress before the construction reaching the condition for intended use, should be included in the recorded value of fixed assets. Construction in progress is transferred to fixed assets using the estimated value according to the actual cost of the project budget, cost, or engineering when the asset is ready for its intended use, having not been handled the completion of final accounts. After handling the final account, the provisional estimate of value should be adjusted according to the actual cost under the provision for depreciation of fixed assets of the Group, but the original provision for depreciation is not necessary to adjust.

(3) Provision for impairment of the construction in progress

Construction in progress is stated in the balance sheet at cost less impairment losses (see Note IV.22)

18. Borrowing costs

(1)Recognition principals for borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of the asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Assets eligible for capitalization refers to the fixed assets, investment property, inventories and other assets which are need to go through a long period of acquisition, construction or production activities to achieve its intended use or sale situations.

(2)Borrowing costs capitalization

Borrowing costs should be capitalized only if all of the three conditions are satisfied:

A. Expenditures for the asset are being incurred,

B. Borrowing costs are being incurred;

C. Acquisition, construction and production activities necessary to prepare the asset for its intended use or sale have commenced.

Capitalization of borrowing costs should be suspended when the acquisition, construction or production of qualified asset is abnormally interrupted for a consecutive period of more than three months.

The capitalization of borrowing costs should cease when the acquisition, construction or production of qualified asset is prepared for its intended use or sale.

The capitalization of borrowing costs should cease when the individual component parts of the acquisition, construction or production of qualified asset have be finished and can be used alone.

(3)Capitalization period of borrowing costs

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

(4)Calculation of the amount of capitalization of borrowing costs

As for specifically borrowed loans, the to-be-capitalized amount of interest costs and auxiliary costs shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment, before the acquisition, construction or production of qualified asset preparing for its intended use or sale.

Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

19. Intangible assets

(1) Valuation and amortization method of intangible assets

The Company initially measures the intangible asset at cost, and analyses and judges its service life when obtained. An intangible asset with a finite useful life is amortized on a straight-line basis over the expected useful lives when the asset is available for use.

(2) Useful life and Amortization period

A. Being derived from any contractual right or other statutory rights, the useful life of intangible assets is no more than the period of the contractual rights or other legal rights; if the contractual rights or other statutory rights can continue due to renewal and it can be proved that the Group do not need to pay a large cost for the renewal, the renewal period should be credited in the useful life.

B. When there are no rules about the useful life in the contract or the law, the Group recognizes the period of intangible assets that bring economic benefit to the enterprise, by hiring experts to conduct feasibility studies, comparing the condition with the same industry and referring to the historical experience under various aspects.

C. After these efforts above, if it is still unable to forecast the period when the intangible asset can bring economic benefits to the enterprise, it shall be regarded as an intangible asset with uncertain service life.

(3) Provision for impairment of the 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 IV.22).

20. Research and development expenditures

The expenditures on internal research and development project shall be classified into expenditure in research phase and expenditure in development phase.

Expenditure in research phase shall be recognized in current profit or loss when occurred.

Expenditure in development phase satisfied with following conditions shall be recognized as intangible assets; otherwise, reckoned in current profit and loss.

(a) It is technically feasible in completing the intangible assets and making it available for sale or use;

(b) The Group has intention to complete and use or sell the intangible asset;

(c) Ways of intangible assets generating economic benefits, including demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself; for intangible asset used internal, the Group can proved its usefulness;

(d) The Group can provide adequate technology, finance and other resources to complete the development of intangible assets while being able to use or sell them;

(e) Expenditure attributable to the intangible asset during its development phase can be measured reliably.

(f) If it is unable to distinguish expenditure into research phase or development phase, all expenditure will be recorded into current profit or loss.

21. Long-term deferred expenses

Long-term deferred expenses of the Group is recorded at actual cost and amortized evenly over their expected beneficial periods. For long-term deferred expenses that cannot bring benefit to the Group in the subsequent accounting periods the amortized value of the expenses should be charged completely to profits and losses for current period.

22. Impairment of 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, oil and gas properties, 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.

23. Employee benefits

(1) The scope of employee benefits

Employee benefits are all forms of consideration and compensation given by the Group in exchange for service rendered by employees or the termination of employment. Employee benefits include short term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Employee benefits include benefits provided to employees' spouses, children, other dependants, survivors of the deceased employees or to other beneficiaries.

During the accounting period in which the employee render the related services, wages, bonuses ,social security contributions(including medical insurance, injury insurance, maternity insurance, etc.) and house funding are recognized as liability and recognized as current profit of loss or assets related costs. If the short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service and have significant financial impact, the liability shall be measured as the discounted amounts.

(2) Post-employment benefits

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Defined benefit plans are other post-employment benefit plans except for defined contribution plans.

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity.

The Group sets up annuity scheme according to the "the approval to enterprise annuity scheme of China Petrochemical Group" (Guozifenpei [2009] No.1387) issued by State-owned Assets Supervision and Administration Commission and relevant policies of the Group. In addition to this, the Group has no other significant commitments of social security of employees.

When an employee has rendered service to the Group during an accounting period, the Group shall recognise the accrued amount according to the defined contribution plans as a liability and charged to the cost of an asset or to profit or loss in the same period.

Under defined benefit plans, the welfare costs are determined by expected cumulative unit credit method, which was evaluated by independent actuaries in the annual balance sheet date. The employee benefits of the Group's defined benefit plans include the following components:

①Service cost, which includes current service cost, past service cost and settlement gains or losses. Current service cost refers to the added present value of defined benefit plans caused by the employee's services. Past service cost refers to the increase or decrease present value of defined benefit plans related to the past employee's services caused by the change of defined benefit plans.

②Net interest of defined benefit plans' net liabilities or net assets includes the interest income of plan assets, interest expense of defined benefit plans obligations and the interest influenced by the assets limit.

③Re-measured the change of defined benefit plan's net liabilities or net assets.

Unless required or permitted by other accounting standards for employee benefit costs included in the cost of assets, those costs which described in item ① and item ② are recognized in profit or loss; the costs which described in item ③ are recognized in other comprehensive income and will not be reversed to profit or loss in subsequent accounting periods while can be transferred within the scope of equity.

(3) Termination benefits

The Group recognizes termination benefits liabilities and profit or loss in the period in the earlier date of the followings: (i) The outgoing business cannot unilaterally withdraws the termination plan or reduce the termination benefits under the proposal, or encourage the employees to accept voluntary redundancy compensation when the outgoing business cannot withdraw from the termination of employment or the layoff proposal ; or (ii) The Group recognizes the payment of the termination benefits costs and expenses.

(4) Other long-term employee benefits

Other long-term employee benefits provided by employees of the Group to meet the conditions of a defined contribution plan shall be treated in accordance with the relevant provisions of the above defined contribution plans. The employee benefits compliance with the refined benefit plan are processed in accordance with the relevant provisions of these refined benefit plan, while the related employee benefits of "Re-measured the change of defined benefit plan's net liabilities or net assets" are recognized in profit or loss or other cost of related assets.

24. Bonds payable

The Group issues bonds in accordance with the actual issuing price, the difference between the issuing price and the total face value of the bones, as the bonds' premium or discount, is amortized in the straight-line method when the interest accrued during the duration of the bonds and dealt with the principles of borrowing costs.

The Group recognize accrued interests in accordance with the face value of the bonds and the explicit interest rate. The interests are separately recognized in the project cost and current financial expenses in accordance with the principles of borrowing costs capitalized.

25. Accrued liabilities

The accrued liabilities are the present obligation likely incurred due to external guarantee, trade acceptance discounts, pending litigations, product quality, loss of contracts and restructuring obligations, etc. The Group shall record the obligations satisfying the following conditions into the liabilities of the balance sheet: the obligation is the Company's current obligations; the fulfilment of the obligation may possibly result in an outflow of economic benefits; and the amounts of the obligations can be measured reliably.

26. Revenue recognition

(1)Sale of goods

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

Related payments are received or supporting documents for cash collection exist; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(2)Rendering services

When the outcome of a transaction involving the rendering of service can be estimated reliably the service revenue should be recognized based on a percentage-of-completion method at the balance sheet date.

This percentage-of-completion method applies the completion process or the ratio of services have already provided divided by total services needed.

The reliable estimates to those transactions of rendering services would not be affected by following conditions:

a. Amount of revenue generated could be measured reliably.

b. Relevant economic benefits most likely flow into the Group.

c. Completion process could be definitely ensured.

d. The costs occurred or are occurring could be reliably measured.

If the transactions of rendering services could not be measured reliably, the Group would regard the payoffs occurred and expected to be received as revenue, and costs occurred as current fees. However, the Group would not recognize this revenue as the payoffs are not expected to be received.

(3)Transfer of asset use right

Revenue from transferring use right of assets use right of assets should be recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably

(4)Construction contracts

If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized in light of the percentage-of-completion method on the date of the balance sheet.

The method of identifying the Group's completion process refers to the result of completed contract content divided by totally expected workout imposed by contract.

The reliable measurement of construction contract outcome shall meet all of the following requirements:

A. Total revenue brought by contract shall be reliable measured.

B. Related economic benefit is quite possibly received by the Group.

C. Contract costs incurred shall be clearly distinguished and reliably measured.

D. Contract completion process and rest cost needed to finish the contract are reliable to be ensured.

If the outcome of a construction contract cannot be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: if the contract costs can be recovered, the contract revenue shall be acknowledged in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period they are incurred; if the contract costs cannot be recovered, these costs shall be acknowledged as contract expenses immediately when incurred and no contract revenue shall be acknowledged.

At the end of each year, the Group conducts a comprehensive inspection of the construction contract. If the total expected contract costs exceed the total expected contract revenue, the difference between them shall be recorded in the profits and losses.

27. Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value. If fair value cannot be reliably determined, it is measured at a nominal amount of RMB 1.

A government grant related to an asset is recognised as deferred income and amortised to profit or loss equally over the useful life of the related asset. A grant that compensates the Group for expenses or losses already incurred is recognised in profit or loss or offset against related expenses directly. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in profit or loss or offset against related expenses in the periods in which the expenses or losses are recognised.

A grant related to ordinary activities is recognised as other income. A grant not related to ordinary activities is recognised as non-operating income.

If the government directly appropriates the interest subsidy to the lending bank, the Group recognized the loan as the amount received, and interest expense is calculated using the loan principal and policy-related preferential interest rate. If the government directly appropriates the interest subsidy to the Group, the interest subsidy is offset against interest expense.

When a recognised government grant is reversed, if there is balance of relevant deferred income, it is offset against the carrying amount of relevant deferred income. Any excess of the reversal to the carrying amount of deferred income is recognised in profit or loss for the current period. For other circumstances, reversal is directly recognized in profit or loss for the current period.

28. Deferred tax assets and deferred tax liabilities

Income tax comprises of current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to transactions or items recognised directly in equity and goodwill arising from a business combination.

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

At the balance sheet date, if the Group has legal rights settled on net amounts and intends to use net settlement or obtain assets and settle liabilities at the same time, the current income tax assets and current income tax liabilities are shown net amount after offsetting.

All the taxable temporary differences are recognized as deferred tax liabilities except for those incurred in the following transactions:

(1)Initial recognition of goodwill, or assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss);

(2)Taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group recognises a deferred tax asset for deductible temporary differences, deductible losses and tax credits carried forward to subsequent periods, to the extent that it is probable that future taxable profits will be available against which deductible temporary differences, deductible losses and tax credits can be utilised, except for those incurred in the following transactions:

(1)A transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss);

(2)Deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognized when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future; and it is probable that taxable profits will be available in the future against which the temporary difference can be utilized.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

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 benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

29. Safety fund reserve

According to the circular of "Administrative measurement on the withdraw and allocation of enterprise's manufacturing-safety fee" issued by the finance ministry accompanying with Sate Administration of Work safety (CaiQi [2012] No. 16), exploration activities of crude oil and natural gas should be charged in the light of raw mineral According to the circular of "Management measures for the extraction and use of enterprise safety cost "(Accounting [2012] No. 16) issued by the Finance Ministry accompanying with State Administration of Work Safety, exploration activities of crude oil and natural gas shall be charged in the light of raw mineral output, which requires 17 Yuan per ton for crude oil and 5 Yuan per 1,000 cubic metres for natural gas. 2.5% of oil engineering (excludes geophysical exploration and ground construction) revenue would be extracted monthly for safety cost, while 1.5% of construction and installation costs for petrochemical engineering business are charged to safety cost. Among refinery and petrochemical business, the extraction is based on real revenue from items listed on "Name List of Hazardous Chemicals "(GB12268). Regressive rate ranged from 0.05%-2% of actual operating income of the previous year is applied to machine-manufacturing business.

Specific reserve for safety production accounted in "Specific reserve" account, and meanwhile calculated in the costs of related products or the profit or loss.

When Specific reserve for safety production is used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through "construction in progress" account, then recognized as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods.

30. Leases

The Group has classified the lease as a financing lease or an operating lease.

(1) Operating leases:

The rents from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred by a lessee shall be recognized as the profits and losses of the current period.

(2) Financing leases:

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs such as commissions, attorneys' fees and travelling expenses, stamp duties directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The unrecognized financing charge shall be amortized to each period during the lease term according to the effective interest rate method and the Group recognizes the financing charge in the current period. Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

31. Fair value measurement

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group measures the relevant assets or liabilities at fair value supposing the orderly transaction of asset selling or liability transferring incurring in a principal market of relevant assets or liabilities. In the absence of a principal market for the asset or liability, the Group assumes that the transaction take place at the most advantageous market of relevant asset or liability. A principal market (or the most advantageous market) is the transaction market that the Group can enter into at measurement date. The Group implements the hypothesis used by the market participants to realize the maximum economic benefit in assets or liabilities pricing.

If there is an active market for the financial assets or financial liabilities, the Group uses the quotation on the active market as its fair value. For those in the absence of active market, the Group uses valuation technique to recognize its fair value.

For non-financial assets measured at fair value, the Group should consider the capacity of the market participants to put the assets into optimal use thus generating the economic benefit, or the capacity to sell assets to other market participants who can put the assets into optimal use and generate economic benefit.

The Group implements the valuation technique suitable for the current condition and supported by enough available data and other information , gives priority in use of relevant observable inputs, only the observable inputs cannot be obtained or impracticable before using unobservable inputs.

For the assets and liabilities measured at fair value or disclosure at financial statements, Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement: Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: inputs are unobservable inputs for the asset or liability.

At each balance sheet date, the Group reviews the assets and liabilities recognized to be measured at fair value on the financial statements to make sure whether conversion occurs between fair value hierarchies.

32. Principal Accounting Estimates and Judgments

The Group evaluates its estimates and significant judgments on an on-going basis in accordance with the historical experience and other assumptions including the reasonable expectations of future events. The most significant judgments and estimates which are likely to lead to a significant adjustment risk in book value of assets and liabilities during the next fiscal year are listed in the following.

(1) 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.

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. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the unit-of-production method.

(2) 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 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 sales volume, selling price and amount of operating costs. 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 and amount of operating costs.

(3) 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.

(4) 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.

(5)Deferred tax assets

If the Group is much likely to obtain sufficient taxable income in subsequent years to offset unused tax loss, it should recognize deferred tax asset correspondingly. This requires the management to apply a lot of judgements on the timing and amount of future taxable profits occurrence, combining with strategies of tax planning, to ensure the amount of deferred tax asset. If the taxable income in the future is lower than expectation or the actual income tax rate is higher than expected, the recognised deferred income tax assets will be reversed and included in the income statement of the reversal period.

(6)Overseas taxation

There is uncertainty in the understanding of complex tax rules (including related preferential tax treatments) and the amount and time of taxable income. Management recognizes provisions for possible results of the audit from tax authorities of each country where the Group do business. The amount of provision is based on various factors such as previous years' audit experience and the explanations from relevant taxable entities and tax authorities. The recognized tax revenues and expenses may need to be adjusted in the future in accordance with the wide range of the international business relations, long-term and complexity of existing contract agreement, the difference between the actual operating results and assumptions or the changes of those assumptions in the future.

Ⅴ. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND PRE-ERROR CORRECTION AND OTHER MATTERS NECESSARY TO ADJUST

1. Changes in accounting policies

1) The "Accounting Standards for Business Enterprises No. 16 - Government Grants" (ASBE No.16) issued by the Ministry of Finance on 10 May 2017 is effective as of 12 June 2017. The standard is applicable to government grants retained on 1 January 2017 and newly increased in 2017. According to the standard, government grants related to daily operating activities should be recorded as other income instead of non-operating income in the income statement. The Group recorded RMB 5,335 million as other income.

2) In the light of the notice from the file named "Amendment to financial statements format for general companies'"(Cai Kuai No [2017] 30), the Group added 'gains or losses on asset disposal' as an account into income statement, and adjusted comparative statements correspondingly.

According to this notice, gains or losses on the fixed and intangible assets disposed in 2017 was recorded in this newly-established account, the corresponding parts in 2016 and 2015 were adjusted for comparing. As a result, the Group recognized RMB (2,222) million in 2017; and retrospectively adjusted RMB (1,183) million resulted in RMB 954 million and RMB 2,137 million decreases of non-operating income and expense in 2016 as losses on assets disposal; and adjusted RMB 198 million resulted in RMB 1,519 million and RMB 1,321 million decreases of non-operating income and expense in 2015 as losses on assets disposal.

3) "Accounting standards for Business Enterprises No. 42 – Non-current asset and disposal set held for sale and discontinued operation" imposes regulations on classification, measurement and presence of non-current asset and disposal set held after May 28th 2017 for sale, as well as presence of discontinued operating, and undertook prospective application. The presence of financial statements was adjusted, which individually displayed continuously and discontinuously operating income and loss in consolidated and separately income statements.

Adjustments to the presence of comparative financial statements had been carried out correspondingly. For discontinuously operating incomes and losses recognized in 2017, those which were previously identified as continuously operating profits and losses were reclassified as discontinuously operating incomes and losses in comparative financial statements. The Group recognized RMB 38,960 million as continuously operating income in 2017, there was no discontinuously operating income occurred in this reporting period.

2. There were no changes in accounting estimate and correction of errors in this year.

Ⅵ. TAXATION

1. Taxes and tax rates

Taxes	Tax Basis	Tax Rates
Value added tax	Income subject to VAT	17%,13%,11%,6%
Consumption tax	Amount issued from production enterprises	Note(1)
City maintenances& construction tax	Subject to turnover tax	7%,5%,1%
Enterprise income tax	Taxable income	25%,15%
Education surcharges	Subject to turnover tax	3%-5%
Resource tax	Income subject to resource tax	5%
Real estate tax	70%-90% of original value of real estate, Rent income	1.20%、12%
Compensatory fee for mineral resources	Crude oil, natural gas sales	1%
Exploration license fee	Exploration area	100-500 Yuan/km^2 year
Mining license fee	Mining area	1000 Yuan/km^2
Special oil income levy	Domestic oil sales	Excess progressive tax rate Note(2)

Note 1: The consumption tax was levied based on sales quantities of taxable products, the oil rates are as follows:

Petroleum products	Since 13 December 2014 (RMB/ ton)	Since 13 January 2015 (RMB / ton)
Gasoline	1,943.20	2,109.76
Diesel oil	1,293.60	1,404.48
Naphtha	1,939.00	2,105.20
Solvent oil	1,794.80	1,948.64
Lubrication oil	1,576.40	1,719.71
Fuel oil	1,116.50	1,218.00
Aviation kerosene	1,370.60	1,495.20

Note2: progressive tax rate for special oil gain

Crude oil price (US $/bbl.)	Rate	Quick deduction (US $/barrel)
65-70(contain)	20%	0
70-75(contain)	25%	0.25
75-80(contain)	30%	0.75
80-85(contain)	35%	1.5
over 85	40%	2.5

2. Tax incentives and approval

(1) Value-added Tax

According to "Notice of the Ministry of Finance and the State Administration of Taxation on the Preferential Policies concerning the Value-added Tax, Property Tax and Urban Land Use Tax for Heat Supply Enterprises" (No. 94 [2016] of the Ministry of Finance), from January 1, 2016 to the end of the heating period of 2018, heat supply enterprises in “Three Northern” Regions shall be exempt from the value-added tax on their heating fee income obtained through supplying heat to resident individuals (hereinafter referred to as residents).

According to "Notice of the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation on the Tax Policies for Imported Materials for the Exploitation of Petroleum (Natural Gas) in China's Specific Onshore Regions during the “13th Five-Year Plan” Period" (No. 68 [2016] of the Ministry of Finance) and "Notice of the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation on Exempting Imported Materials for the Exploitation of Petroleum (Natural Gas) in China's Sea Areas from Import Taxes during the “13th Five-Year Plan” Period" (No. 69 [2016] of the Ministry of Finance), from January 1, 2016 to December 31, 2020, imported equipment, instruments, spare parts and accessories, and special tools that are unable to be produced in China, or whose performance is unable to meet the requirements, and that are directly used in the exploitation operations for the proprietary projects of petroleum (natural gas) exploitation operations in the deserts, Gobi deserts and sea areas within the territory of China shall be exempted from import tariff within the prescribed duty-free import quotas.

According to "Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Value-added Tax, Business Tax and Enterprise Income Tax Policies for Promoting the Development of the Energy Services Sector" (No.110 [2010] of the Ministry of Finance) and "Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner" (No. 36 [2016] of the Ministry of Finance), income subject to VAT gained by energy services companies from contract-based energy management projects shall be exempted from VAT during the benefit sharing period.

According to the tax incentives that the childcare and education services provided by nurseries and kindergartens are exempt from VAT in "Notice of the Ministry of Finance and the State Administration of Taxation on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner" (No. 36 [2016] of the Ministry of Finance), The kindergarten education services of the relevant companies of the Group are exempt from VAT.

China Petrochemical Press Co., Ltd. and China Economic Publishing House implement preferential policies for the implementation of VAT repayment on science and technology books in accordance with the "Provisional Regulations of the People's Republic of China on VAT" and relevant regulations.

China Petrochemical Press Co., Ltd. and China Economic Publishing House have enjoyed the benefits of the "Regulation of the State Administration of Taxation of the Ministry of Finance on the Continuation of the Implementation of the Policy of Promotion of Cultural Value-added Tax and Business Tax Preference" (Caihe [2013] No. 87) that from 1 January 2013 to 31 December 2017, the publication will implement a 50% preferential policy for the VAT rebate.

According to "Opinions on Deepening the System Reform of Publishing Houses in All Ministries of the Central Government" (Zhongban Fat [2009] No. 16) and "Notice of the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation on Further Implementing the Several Tax Policies on Supporting the Development of Cultural Enterprises" (No. 85 [2014] of the Ministry of Finance) with their related supporting tax incentives, Sinopec Press will enjoy preferential policies for VAT exemption from January 1, 2014 to December 31, 2018 after restructuring into a enterprise.

In accordance with "Shanghai Huxi Puhu Zeng" ([2012] No. 145 Shanghai Pudong New Area State Taxation Bureau), Sinopec Consulting Co., Ltd. enjoys the preferential policy of exempting value-added tax for contract energy management projects.

According to "Announcement of the State Administration of Taxation on the Issues of Value-added Tax concerning Nitro-Compound Fertilizer" (Announcement No. 52 [2012] of the State Administration of Taxation), Sinopec Nanjing Chemical Industry Co., Ltd. enjoys the preferential policy of direct VAT exemption in production and sales of agricultural fertilizer and other agricultural production materials.

According to "Notice of the Ministry of Finance and the State Administration of Taxation on Including the Railway Transportation and Postal Services Industries in the Pilot Program of Replacing Business Tax with Value-Added Tax" (No. 106 [2013], Ministry of Finance), revenues from technology transfer, technology development, and related technical consulting and technical service business of related companies of the Group are exempt from VAT.

(2) Consumption tax

According to the Circular on Exempting Consumption Tax on Oil Products by Product Oil Manufacturing Enterprises for Their Own Use (CaiShui [2010] No. 98) issued the Ministry of finance, and the State Administration of Taxation, since 1 January 2009, the self-produced refined oil consumed and used as fuel, power and raw materials exempted from consumption tax.

According to the Circular on Levy-Rebate of Consumption Tax on Self-use Product Oil of Oil (Gas) Field Enterprises (CaiShui [2011] No.7) issued the Ministry of finance, and the State Administration of Taxation, since 1 January 2009, the domestically purchased refined oil consumed during the crude oil exploitation process of oil (gas) field enterprises, was temporarily rebated all the consumption tax based on the amount actually paid.

(3) Resource tax

The production of heating crude oil, heavy oil, tertiary oil recovery, "three lows" oil and gas fields, deep-water oil and gas fields is tax exempted or tax relief of 20% -40%.

(4) Corporate income tax

Part of the Group's affiliated enterprises which identified as high-tech enterprises by government adopts 15% income tax rate.

According to twenty-third article of No.19 in the first class of "National Development and Reform Commission Order No.9 [2011] which is about the guide catalogue of the adjustment of industrial structure (2011 version)", Sinopec southwest petroleum engineering company, Shanxi Green, Sichuan Star gas limited liability Company, Jinling petrochemical (Chengdu) Co., Ltd shall enjoy the incentives for western development of enterprise income tax relief 15% pay.

According to the Circular of Ministry of Finance and the State Administration of Taxation on Enterprise income tax collection for institutions and social groups and related issues (CaiShuiZi [1997] No. 075), the administrative fees of the institutions of the Group shall be exempted from enterprise income tax.

(5) Property tax and urban land use tax

According to "Notice of the Ministry of Finance and the State Administration of Taxation on the Preferential Policies concerning the Value-added Tax, Property Tax and Urban Land Use Tax for Heat Supply Enterprises" (No. 94 [2016] of the Ministry of Finance), Plants and land used for heating of residents are exempted from property tax and urban land use tax. from January 1, 2016 to the end of the heating period of 2018, for heating companies that supply heat to residents, but also provide heat to the unit or concurrently engage in other production and business activities, the heating fee income obtained from the heating of residents is the proportion of the total income of the company and exempted from property tax and urban land use tax.

According to "Notice of the Ministry of Finance and the State Administration of Taxation on Relevant Preferential Tax Policies for City and State-Owned Mining Shanty Area Renovation Projects" (No. 42 [2010] of Ministry of Finance), relevant enterprises affiliated to the Group are exempted from urban land use tax and stamp duty on the basis of the proportion of the total area of the building area.

3. Overseas corporate taxes, rates and preferential policy

Overseas enterprise enjoys the preferential policies according to the relevant legal provisions in country or regions.

Ⅶ. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

1. Basic profiles of subsidiaries within the scope of consolidated financial statements

Subsidiaries name	Share holding%	Voting rights%	Registered Capital RMB million	Investment Amount RMB million	Main business
Sinopec Corp	71.0925	71.3182	121,071	106,979	Production and sale of petroleum and petrochemical products
Sinopec Engineering(Group) Co., Ltd	67.01	67.01	4,428	6,126	Engineering design, general contracting, construction and installation business
Sinopec Oilfield Service Corporation	65.22	65.22	14,143	24,075	Exploration drilling, logging and other petroleum engineering services
Sinopec Oilfield Equipment Corporation	58.74	58.74	598	828	Petroleum machinery equipment and production and sales of oil and gas pipelines
Sinopec Assets Management Co., Ltd.	100	100	30,080	59,050	State-owned Assets Management, cultural and educational health, community services
Shengli Petroleum Administration Bureau	100	100	8,431	32,073	Mine (community) security, water and electricity supply business
Zhongyuan Petroleum Exploration Bureau	100	100	5,000	6,938	Mine(community) security and public welfare business
Henan Petroleum Exploration Bureau	100	100	1,625	4,186	Mine (community) security, water and electricity supply business
Jianghan Petroleum Administration Bureau	100	100	2,364	6,126	Mine (community) security, water and electricity supply business
Jiangsu Petroleum Exploration Bureau	100	100	1,536	2,940	Mine (community) security, water and electricity supply business
Northwest China Petroleum Bureau	100	100	286	1,012	Community and asset management business

Subsidiaries name	Share holding%	Voting rights%	Registered Capital RMB million	Investment Amount RMB million	Main business
North China Petroleum Bureau	100	100	343	(46)	Mine(community) security and public welfare business
East China Petroleum Bureau	100	100	183	880	Mine(community) security, Oil gas field engineering services and mineral development
Southwest China Petroleum Bureau	100	100	2,018	2,654	Mine(community) security and gas sales
Northeast China Petroleum Bureau	100	100	50	219	Oilfield Services Engineering and Property Management
Shanghai Offshore Petroleum Bureau	100	100	151	193	Mine(community) security, Oil gas field engineering services and mineral development
China Star Petroleum Co. Ltd.	100	100	1,361	2,379	Engineering construction and technical services
Pipeline Storage and Transportation Company	100	100	191	751	Maintenance of oil and natural gas pipeline
Sinopec Finance Co., Ltd.	100	100	18,000	8,169	Deposits and loans within the Group, discounted bills and other financial services
Sinopec Century Bright Capital Investment Ltd	100	100	11,082	11,082	Investment and financing business
Sinopec Shanghai Zheshi Futures Co., Ltd	95	95	200	190	Domestic commodity futures and financial futures brokerage
Sinopec Insurance Co. Ltd	100	100	235	235	Assets insurance
Sinopec Insurance Broker Co. Ltd	100	100	50	50	Insurance broker
Sinopec Group Overseas Development Co., Ltd.	100	100	1	1	Investing and financing
Petroleum & Chemical Engineering Quality Supervision Station	100	100	2	26	Supervision and management
Sinopec Engineering Quality Inspection Centre	100	100	10	10	Monitoring and testing of petrochemical engineering quality
Tendering Co., Ltd.	100	100	11	11	Consulting and tendering agency services
Petroleum Commercial Reserves Co. Ltd.	100	100	51,429	51,429	Reserves of crude oil and wholesale
Sinopec Baichuan Economic and Trade Company	100	100	3,758	4,356	Management of real estate and operating of hotels
Sinopec Accounting Services Co., Ltd	100	100	300	300	Financial and IT services
Authority Service Centre	100	100	5	231	Logistics services
China Petrochemical Consulting Corporation	100	100	75	74	Evaluation and counselling of investment

Subsidiaries name	Share holding%	Voting rights%	Registered Capital RMB million	Investment Amount RMB million	Main business
Economic & Technology Research Institute	100	100	7	150	Management and technical supports
Petroleum and Chemical Management Institute	100	100	50	650	Training and academic exchanges
China Petrochemical News	100	100	7	229	Publication
China Petrochemical Press Co. LTD	100	100	40	44	Publication and distribution
Economic Press China	100	100	25	97	Publication and distribution
Research Institute of Petroleum Engineering Technology	100	100	100	164	Petroleum machinery fabrication

a. Change in number of subsidiaries at second-grade within the scope of consolidation

There were 37 secondary subsidiaries within the consolidated scope in 2016. As the establishment of Sinopec Accounting Services Co Ltd in 2017, the number increased to 38.

b. Profiles about the current companies controlled by the Group

1) The proportion of Sinopec Corporation's equity held by the Company

At December 31st 2017, the Company directly and indirectly held 86,072,577,915 shares of Sinopec Corporation (including 85,519,427,915 A-shares, and 553,150,000 H-shares indirectly held via Sinopec Century Bright Capital Investment Ltd), the proportion of equity held remained at 71.0925%.

2) Explanation to the difference between nominal ownership and actual ownership to Sinopec Corporation

The annual report of Sinopec Corporation disclosed that proportion of its shares held by the Group was 71.32%, which was slightly different from the actual ownership of 71.09%. The reasons are displayed below:

According to the Company's agreement with Henan province on 10% equity shares in Luoyang refinery (Sinopec [2000] Qi Zi No. 298), 10% equity of Luoyang refinery owned by Henan Natural Gas Development Corporation worth RMB 110 million had been converted to 77.07 million shares of Sinopec Corp according to the same conversion price of the Group, accounting for 0.0828% of Sinopec Corp's shares in 2017.

According to the Company's agreement with Anqing Petrochemical Acrylic limited on assets disposal (Sinopec [2000] Qi Zi No.402), Anhui Investment Group held equity of RMB 190 million of Anqing Petrochemical Acrylic limited, which was converted to 133.12 million shares of Sinopec Corp according to the same conversion price of the Company. Since Sinopec Corporation conducted shares conversion and payment in 2013, the proportion of its shares held by Anhui Investment Group was 0.1429%.

3) Explanations to the interests exclusively for state-owned equity of listed affiliates and transfer of fiscal appropriations

According to the regulations imposed by Finance of Ministry to companies held by diversified investment entities, the interests created by appropriations from state, funds transferred, estimated price of land, tax refund and deduction, liquidated capital from state, and other policies are considered as interests exlusively for state-owned equity. Prior to the end of 2012, fiscal appropriation to Sinopec Corp increased the Company's long-term equity investment to the corporation, and had been reflected in the consolidated financial statements. At December 31st 2012, the Company exclusively accumulated RMB 2,703 million interests to Sinopec Corporation.

Under the guidance of a file titled "A notice to strengthen enterprise's management on financial information" (Cai Qi No. [2012] 23) published by ministry of finance, the Company started to record fiscal appropriations as entrusted loan in 2012.

2. Reasons for holding half or less voting rights of subsidiarie but still taking control of them

There are no subsidiaries within consolidated scope of which major voting rights are not held by the Group.

3. The secondary subsidiaries not within consolidated scope of which most voting rights are held by the Group

There are no subsidiaries not within consolidated scope of which most voting rights are held by the Group.

4. Important subsidiaries not solely invested by the Group

a. minority interests:

Subsidiaries Name	Proportion of shares held by minority shareholders (%)	profits & losses attributable to minority shareholders	Dividends to minority shareholders	Accumulated minority interest at end of 2017
Sinopec Corp	28.91	14,777	9,450	209,447
Sinopec Engineering(Group) Co., Ltd	32.99	371	196	8,441
Sinopec Oilfield Service Corporation	34.78	(3,680)		(731)
Sinopec Oilfield Equipment Corporation	41.26	4		726

b. Significant financial information

	The year of 2017/ the end of 2017			
Items	**Sinopec Corp**	**Sinopec Engineering(Group) Co., Ltd**	**Sinopec Oilfield Service Corporation**	**Sinopec Oilfield Equipment Corporation**
Current assets	529,050	51,856	31,822	5,425
Non-current assets	1,066,455	7,549	30,120	1,572
Total assets	**1,595,505**	**59,405**	**61,942**	**6,997**
Current liabilities	579,445	31,086	63,356	5,034
Non-current liabilities	161,988	2,729	684	65
Total Liabilities	**741,433**	**33,815**	**64,040**	**5,099**
Operating revenue	2,360,193	36,350	48,486	3,994
Net income	70,294	1,126	(10,583)	35
Comprehensive income	65,917	994	(10,583)	35
Cash flows generated by operation	190,936	4,458	419	48

Continued:

	The year of 2016/ the end of 2016			
Items	Sinopec Corp	Sinopec Engineering(Group) Co., Ltd	Sinopec Oilfield Service Corporation	Sinopec Oilfield Equipment Corporation
Current assets	412,261	50,968	41,131	4,965
Non-current assets	1,086,349	7,850	33,363	1,556
Total assets	**1,498,610**	**58,818**	**74,494**	**6,521**
Current liabilities	485,543	30,914	65,095	4,632
Non-current liabilities	180,540	2,702	957	52
Total Liabilities	**666,083**	**33,616**	**66,052**	**4,684**
Operating revenue	1,930,911	39,516	42,923	3,444
Net income	59,170	1,682	(16,115)	(808)
Comprehensive income	65,504	1,712	(16,115)	(808)
Cash flows generated by operation	214,544	4,318	(3,907)	(119)

Continued:

	The year of 2015/ the end of 2015			
Items	Sinopec Corp	Sinopec Engineering(Group) Co., Ltd	Sinopec Oilfield Service Corporation	Sinopec Oilfield Equipment Corporation
Current assets	332,406	50,464	49,511	5,721
Non-current assets	1,110,725	7,940	35,797	1,657
Total assets	**1,443,131**	**58,404**	**85,308**	**7,378**
Current liabilities	462,642	30,987	59,907	4,694
Non-current liabilities	194,863	2,779	764	8
Total Liabilities	**657,505**	**33,766**	**60,671**	**4,702**
Operating revenue	2,018,883	45,663	60,349	5,096
Net income	43,346	3,285	24	43
Comprehensive income	43,484	3,066	24	43
Cash flows generated by operation	165,818	5,802	2,576	130

c. Special accounting policies undertaken by subsidiaries

There are no such special policies.

d. The new subsidiary consolidated

Subsidiary name	Net asset at end of 2017	Net income in 2017
Sinopec Accounting Services Co., Ltd	299	(1)

e. There were no limitations to intra-group cash and assets movements, or intra-group dividends and profit distribution, or intra-group lending distribution and collection.

Ⅷ. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Cash on hand	64	67	64
Cash at bank	193,663	162,762	92,790
Other monetary fund	2,368	1,996	1,574
Subtotal	**196,095**	**164,825**	**94,428**
less: Impairment provision	154	150	196
Total	**195,941**	**164,675**	**94,232**

2. Financial assets at fair value through profit and loss

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Structured deposits	51,195		
Equity investment	1		
Total	**51,196**		

Financial assets at fair value through profit and loss of the Group mainly refer to structured deposits which are saved in financial institutions, and could not timely converted into cash. They are classified as current assets because of their maturities within 12 months.

3. Bills receivable

Categories	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Bank acceptance bills	19,529	15,446	12,923
Commercial acceptance bills	657	1,096	601
Total	**20,186**	**16,542**	**13,524**

4. Accounts receivable

Categories	At 31 December 2017				At 31 December 2016				At 31 December 2015			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Specific identification	9,109	11.46	1,355	14.88	8,096	12.01	334	4.13	7891	13.37	174	2.20
Aging analysis	70,360	88.54	3,913	5.56	59,341	87.99	3,620	6.10	51,125	86.63	2,519	4.93
Total	**79,469**	**100**	**5,268**	**—**	**67,437**	**100**	**3,954**	**—**	**59,016**	**100**	**2,693**	**—**

At the end of the fiscal years, carrying amount of the Group's receivables are RMB 74,201 million in 2017, RMB 63,483 million in 2016 , and RMB 56,323 million in 2015 respectively.

Aging analysis on accounts receivable is as follows:

Aging	At 31 December 2017			At 31 December 2016			At 31 December 2015		
	Amount RMB million	%	Provision RMB million	Amount RMB million	%	Provision RMB million	Amount RMB million	%	Provision RMB million
Within 1 year	63,801	90.68		52,216	87.99		46,423	90.78	
1-2 years	2,663	3.78	799	4,107	6.92	1,232	2,677	5.25	803
2-3 years	1,955	2.78	1,173	1,575	2.65	945	772	1.51	463
Over 3 years	1,941	2.76	1,941	1,443	2.44	1,443	1,253	2.46	1,253
Total	**70,360**	**100**	**3,913**	**59,341**	**100**	**3,620**	**51,125**	**100**	**2,519**

1)Accounts receivable written off during this year

The losses caused by events attributed to write-offs of receivables worth RMB 74 million in 2017, and the events causing significant amount are shown below:

(1)One of Sinopec Assets Management Co., Ltd.'s receivables owed by Beijing Shuangquan Yanshan Carpet Co.,Ltd. was written off because of the debtor's bankruptcy. According to the paragraph 1 of Article 13 of "Notice on issuing the rules of financial write-off of provisions for central enterprise asset impairments"(Appraisement No. 67 [2005] of SASAC), impairment provision amounting for RMB 23 million was written off.

(2)The payable of Vanoil Kenya Limited to Sinopec Oilfield Service Corporation, of which carrying amount was RMB 20 million, was written off, because the statute of limitation for suing debtor's shutting down related projects had expired. According to the paragraph 9 of Article 13 of "Notice on issuing the rules of financial write-off of provisions for central enterprise asset impairments"(Appraisement No. 67 [2005] of SASAC), this write-off was executed.

5. Prepayments

(1) Aging	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	12,553	94.85	9,963	88.90	8,148	91.50
1-2 years	355	2.68	948	8.46	569	6.39
2-3 years	179	1.35	196	1.75	92	1.04
Over 3 years	148	1.12	100	0.89	96	1.07
subtotal	**13,235**	**100**	**11,207**	**100**	**8,905**	**100**
Less: Provision for bad debts	238		422		292	
Total	**12,997**		**10,785**		**8,613**	

(2) The main prepayments aging over one year

There was no significant prepayment aging over one year in the Group.

6. Other receivables

Categories	At 31 December 2017				At 31 December 2016				At 31 December 2015			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Specific identification.	3,986	14.04	582	14.60	6,071	19.89	570	9.39	2,473	7.23	378	15.29
Aging analysis	24,400	85.96	2,577	10.56	24,448	80.11	2,308	9.44	31,730	92.77	2,505	7.89
Total	**28,386**	**100**	**3,159**		**30,519**	**100**	**2,878**		**34,203**	**100**	**2,883**	

At 31 December 2017, 2016 and 2015, the book value of other receivables was RMB 25,227 million, RMB 27,641 million and RMB 31,320 million respectively.

1)Aging analysis of other receivables is as follows:

Aging	At 31 December 2017			At 31 December 2016			At 31 December 2015		
	Amount RMB million	%	Provision for bad debts RMB million	Amount RMB million	%	Provision for bad debts RMB million	Amount RMB million	%	Provision for bad debts RMB million
Within 1 year	21,339	87.46		21,781	89.09		28,976	91.32	
1-2 years	503	2.06	151	414	1.69	125	314	0.99	94
2-3 years	330	1.35	198	175	0.72	105	74	0.23	45
Over 3 years	2,228	9.13	2,228	2,078	8.5	2,078	2,366	7.46	2,366
Total	**24,400**	**100**	**2,577**	**24,448**	**100**	**2,308**	**31,730**	**100**	**2,505**

2)During the year ended 31 December 2017, 2016 and 2015, the other accounts receivables formed actual loss were written off RMB 24 million , 40 million and 378 million respectively.

7. Inventories

Categories	At 31December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Raw material	38,439	51,479	45,767
Goods in process	17,549	16,501	25,962
Finished goods	169,409	133,811	123,741
Turnover materials	384	288	453
Materials in transit	39,810	34,429	18,655
Completed but not billed balances arising from construction contract	14,726	15,418	21,484
Labour project costs	151	170	763
Other	385	383	266
Total	**280,853**	**252,479**	**237,091**
Less: Provisions for diminution in value of inventories	17,603	1,429	4,832
Carrying amount	**263,250**	**251,050**	**232,259**

8. Non-current assets due within one year

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Discounted assets of Finance Company	9,364	5,801	6,175
Shareholder loan			11,919
Loans	68,588	60,912	39,409
Long - term prepaid expenses within one year	949	1,819	1,913
Held-to-maturity investment matured within one year			20
Other non-current assets maturing within one year	732	429	6,416
Total	**79,633**	**68,961**	**65,852**

The loans are provided by Sinopec Century Bright Capital Investment to joint ventures and associates due in one year, including the amounts of RMB 66,025 million to SIPC.

9. Other current assets

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Structured Investment Products	34,698	18,469	10,052
Held-to-maturity investment maturing within one year	6,730	6,335	2,129
Buying back the sale of financial assets		578	8,500
Dividend receivables	421	903	176
Interests receivable	3,431	2,426	1,141
Recoverable value-added tax	27,507	28,117	27,343
Total	**72,787**	**56,828**	**49,341**

10. Available-for-sale financial assets

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Available-for-sale equity instruments	11,090	18,077	15,721
Available-for-sale bond	5,530	5,314	5,515
Others	3,289	1,669	1,380
Total	**19,909**	**25,060**	**22,616**
Less: Provisions of impairment on Available-for-sale financial assets	1,242	1,280	1,046
Book value	**18,667**	**23,780**	**21,570**

11. Long-term receivables

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Shareholder loan	25,047	24,977	21,502
Loans	11,700	11,700	11,700
Others	285	73	38
subtotal	**37,032**	**36,750**	**33,240**
Less: Provision for bad debts			
Total	**37,032**	**36,750**	**33,240**

12. Long term equity investments

a. Classification of long-term equity investments

Item	Balance at 1 January 2017 RMB million	Increase RMB million	Decrease RMB million	Balance at 31 December 2017 RMB million
Investment in joint ventures	55,365	14,393	12,716	57,042
Investment in associates	133,816	13,059	5,905	140,970
Investment in subsidiaries	13			13
Subtotal	**189,194**	**27,452**	**18,621**	**198,025**
Less: Long-term investments impairment provision	68,978	936	55	69,859
Total	**120,216**	**26,516**	**18,566**	**128,166**

Continued:

Item	Balance at 1 January 2016 RMB million	Increase RMB million	Decrease RMB million	Balance at 31 December 2016 RMB million
Investment in joint ventures	46,600	12,112	3,347	55,365
Investment in associates	125,030	26,598	17,812	133,816
Investment in subsidiaries	23		10	13
Subtotal	**171,653**	**38,710**	**21,169**	**189,194**
Less: Long-term investments impairment provision	68,950	46	18	68,978
Total	**102,703**	**38,664**	**21,151**	**120,216**

b. Principal financial information of significant joint ventures

2017					
Items	**FREP**	**BASF-YPC company limited**	**Taihu**	**YASREF**	**SINOPEC SABIC Tianjin Petrochemical**
Current assets	16,785	7,135	4,814	15,732	9,233
Non-current assets	19,740	12,075	7,978	51,553	13,248
Total assets	36,525	19,210	12,792	67,285	22,481
Current liabilities	6,184	2,215	1,934	17,271	5,782
Non-current liabilities	13,890	974	2,758	36,509	4,142
Total Liabilities	20,074	3,189	4,692	53,780	9,924
Net assets	16,451	16,021	8,100	13,505	12,557
Net assets based on proportion of shareholding	8,226	8,010	3,831	5,064	6,279
Adjustments					
Book value of investments to joint ventures	8,226	8,010	3,831	5,064	6,279
Operating revenue	49,356	21,020	12,520	61,587	22,286
Financial expenses	649	35		1,337	119
Income tax	1,699	1,151	553	(57)	1,279
Net profit	5,278	3,414	1,144	605	3,834
Other comprehensive income			25	(554)	
Comprehensive income	5,278	3,414	1,169	51	3,834
Dividends received form Joint ventures	1,250	1,109			1,375

Continued:

2016

Items	FREP	BASF-YPC company limited	Taihu	YASREF	SINOPEC SABIC Tianjin Petrochemical
Current assets	18,442	6,246	2,781	8,085	5,520
Non-current assets	21,903	13,530	8,279	57,054	14,003
Total assets	40,345	19,776	11,060	65,139	19,523
Current liabilities	6,424	2,890	1,950	7,652	2,657
Non-current liabilities	20,237	1,502	2,179	44,032	5,369
Total Liabilities	26,661	4,392	4,129	51,684	8,026
Net assets	13,684	15,384	6,931	13,455	11,497
Net assets based on proportion of shareholding	6,842	7,692	3,278	5,046	5,749
Adjustments			743		
Book value of investments to joint ventures	6,842	7,692	4,021	5,046	5,749
Operating revenue	41,764	17,323	9,658	41,286	16,337
Financial expenses	799	154	73	1,183	215
Income tax	1,574	648	518	56	783
Net profit	4,901	1,958	1,893	84	2,401
Other comprehensive income			1,851	647	
Comprehensive income	4,901	1,958	3,744	731	2,401
Dividends received form Joint ventures		194			300

c. Principal financial information about significant associates

2017

Items	SIPC	Pipeline Company	SIBUR	Zhongtian Hechuang	CIR
Current assets	20,552	11,317	20,719	8,232	5,612
Non-current assets	304,327	40,972	158,938	51,553	1,673
Total assets	324,879	52,289	179,657	59,785	7,285
Current liabilities	82,977	933	20,554	10,668	908
Non-current liabilities	352,726	3,176	61,771	31,494	170
Total Liabilities	435,703	4,109	82,325	42,162	1,078
Net assets	(87,375)	48,180	97,332	17,623	6,207
Net assets based on proportion of shareholding	(20,796)	24,090	9,676	6,829	3,104
Adjustments	20,796				
Book value of investments to associates		24,090	9,676	6,829	3,104
Operating revenue	41,165	5,644	52,496	3,569	2,563
Net profit	(58,754)	2,543	9,601	123	(610)
Other comprehensive income	6,701		(260)		(334)
Comprehensive income	(52,053)	2,543	9,341	123	(944)
Dividends received form associates			221		

Continued

2016

Items	SIPC	Pipeline Company	Zhongtian Hechuang	CIR	SIBUR
Current assets	18,021	11,835	7,292	5,120	
Non-current assets	389,014	25,396	50,301	3,842	
Total assets	407,035	37,231	57,593	8,962	
Current liabilities	106,690	5,009	8,078	928	
Non-current liabilities	359,926	5	32,137	883	
Total Liabilities	466,616	5,014	40,215	1,811	
Net assets	(59,581)	32,217	17,378	7,151	
Net assets based on proportion of shareholding	(6,305)	16,108	6,734	3,576	
Adjustments	12,121	6,692			
Booke value of investments to associates	5,817	22,800	6,734	3,576	
Operating revenue	31,342	191		2,205	
Net profit	(53,055)	51		(3,518)	
Other comprehensive income	(97)			662	
Comprehensive income	(53,152)	51		(2,856)	
Dividends received form associates		23			

Note: As at 31 December 2016, operating results which have been achieved by Sinopec Pipeline Storage & Transportation Co,. Ltd since the Group lost the control to it was displayed in condensed statement of income in 2016.

By the end of 2016, principal assets of Zhongtian Hechuang were still at the stage of establishment.

Sinopec Group's principal subsidiaries are included in the consolidation. Subsidiaries not within consolidated cope are in the process of bankruptcy liquidation or clean-up and rectification.

13. Fixed assets

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
1.Cost	**1,299,914**	**1,247,042**	**1,222,985**
Incl.:Land assets	8,478	8,493	8,514
Plant & buildings	181,983	176,011	167,097
Temporary facilities	1,059	917	686
General equipment	114,628	110,428	107,763
Special equipment for oil and gas	178,350	176,926	171,860
Special equipment for petroleum and chemical industry	788,965	749,308	743,434
Others	26,451	24,959	23,631
2.Accumulated depreciation	**662,270**	**622,227**	**580,921**
Incl.:Plant & buildings	74,461	70,106	64,918
Temporary facilities	708	565	408
General equipment	73,328	69,428	65,190

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Special equipment for oil and gas	98,341	92,195	84,797
Special equipment for petroleum and chemical industry	402,475	378,141	354,875
Others	12,957	11,792	10,733
3. Impairment provision	**47,587**	**34,018**	**30,285**
Incl.:Land assets	29	29	29
Plant & buildings	7,429	6,313	5,795
General equipment	2,781	1,505	1,399
Special equipment for oil and gas	5,388	982	991
Special equipment for petroleum and chemical industry	31,208	24,904	21,754
Others	752	285	317
4.Book value	**590,057**	**590,797**	**611,779**
Incl.:Land assets	8,449	8,464	8,485
Plant & buildings	100,093	99,592	96,384
Temporary facilities	351	352	278
General equipment	38,519	39,495	41,174
Special equipment for oil and gas	74,621	83,749	86,072
Special equipment for petroleum and chemical industry	355,282	346,263	366,805
Others	12,742	12,882	12,581

During the year ended 31 December 2017, 2016 and 2015, the depreciation expense totalled RMB 61,076 million, RMB 60,993 million and RMB 58,189 million respectively.

During the year ended 31 December 2017 2016 and 2015, the fixed asset increase transferred from construction in progress totalled RMB 71,063 million, RMB 49,325 million and RMB 80,281 million respectively.

14. Oil and gas assets

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
1.Cost	**668,526**	**651,541**	**614,006**
Incl.:Mineral interests			
Unproved Mineral interests			
Wells and related facilities	668,526	651,541	614,006
2. Cumulative depletion	**457,223**	**405,656**	**354,908**
Incl.:Mineral interests			
Wells and related facilities	457,223	405,656	354,908
3.Impairment provision	**39,405**	**30,645**	**20,013**
Incl.:Mineral interests			
Unproved Mineral interests			
Wells and related facilities	39,405	30,645	20,013
4. Book value	**171,898**	**215,240**	**239,085**

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Incl.:Mineral interests			
Unproved Mineral interests			
Wells and related facilities	171,898	215,240	239,085

During the year ended 31 December 2017, 2016 and 2015, the depletion expense totalled RMB 55,085 million, RMB 48,982 million and RMB 40,231 million respectively.

15. Construction in progress

(1) Breakdown of construction in progress

Project name	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Infrastructure projects spending	65,714	75,650	80,785
Technological transformation project	36,855	37,386	32,861
Geological exploration expenditures	9,748	12,246	16,874
Disbursements for oil and gas development	20,404	22,196	36,783
Others	3,761	5,721	7,087
Total	**136,482**	**153,199**	**174,390**
Less: Provision for impairment of construction in progress	1,943	1,938	482
Book value	**134,539**	**151,261**	**173,908**

(2) Significant Construction projects in process

Projects	Budget	2017/1/1	Increase	Parts transferred to fixed asset	Other decreases	2017/12/31
Zhongke Refining and Petrochemical Integrated Project	34,667	3,274	3,719	3		6,990
Guangxi Liquefied Natural Gas(LNG)Project	15,475	4,903	1,032	3,562	8	2,365
Wen #23 Gas reserve	13,865	124	1,207	2		1,329
Tianjin Liquefied Natural Gas(LNG) Project	13,639	8,213	2,413	7,066	406	3,154
Construction projects about Xinjiang coal gas pipeline	11,589	651	1,041			1,692
Factory construction in Jiang Dong block	4,578	2,470	389		1,303	1,556
Old refiery Areas Structural Transformation Project	3,683	108	846		3	951
Plant construction of Sinopec Hainan Refining & Chemical Limited Company	3,680	46	548			594
Oil pipeline loop project from Yizheng to Jiujiang	3,316	2,456	270	2,456		270
Jijiajing Coal Industry Silver Star Coal Mine	2,276	1,980	177			2,157
Total	**106,768**	**24,225**	**11,642**	**13,089**	**1,720**	**21,058**

(2) Significant Construction projects in process Continued:

Projects	Percentage of accumulated investments occurred to budget	Completion	Accumulated capitalized interests	Capitalized interests in 2017	Funds sources
Zhongke Refining and Petrochemical Integrated Project	20	20	25	25	Loan and self-finance
Guangxi Liquefied Natural Gas(LNG)Project	68	68	670	-	Loan and self-finance
Wen #23 Gas reserve	10	10	2	2	Loan and self-finance
Tianjin Liquefied Natural Gas(LNG) Project	78	78	147	57	Loan and self-finance
Construction projects about Xinjiang coal gas pipeline	15	15	-	-	Self-finance
Factory construction in Jiang Dong block	67	67	-	-	Self-finance
Old refiery Areas Structural Transformation Project	26	26	-	-	Self-finance
Plant construction of Sinopec Hainan Refining & Chemical Limited Company	16	16	2	2	Loan and self-finance
Oil pipeline loop project from Yizheng to Jiujiang	82	82	102	-	Loan and self-finance
Jijiajing Coal Industry Silver Star Coal Mine	95	95	-	-	Self-finance
Total			**948**	**86**	

16. Intangible assets

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
1.Cost	**177,948**	**155,661**	**146,567**
Incl: Patent right	5,698	4,913	4,754
Land use right	113,518	104,440	98,736
Computer software	865	829	779
Others	57,867	45,479	42,298
2.Accumulated amortization	**52,488**	**44,124**	**38,251**
Incl: Patent right	3,520	3,555	3,369
Land use right	28,026	24,881	21,732
Computer software	738	686	624
Others	20,204	15,002	12,526
3.Impairment provision	**1,074**	**1,042**	**1,024**
Incl: Patent right	498	498	498
Land use right	369	355	340
Computer software	1	1	1
Others	206	188	185
4.Book value	**124,386**	**110,495**	**107,292**
Incl: Patent right	1,680	860	887
Land use right	85,123	79,204	76,664
Computer software	126	142	154
Others	37,457	30,289	29,587

17. Goodwill

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Book balance	19,603	17,124	17,036
Less:Goodwill impairment provision	8,784	8,587	8,580
Book value	**10,819**	**8,537**	**8,456**

(1)The main original value of goodwill

Name of investee or goodwill items	At 31 December 2017 RMB million
Sinopec Zhenhai Refining & Chemical Compan	4,043
Sinopec Yangzi Petrochemical Company Limited	2,744
SECCO	2,541
Sinopec Qilu Branch	2,161
Circulation Right for Equity Separation (Sinopec Corp.)	2,123
Sinopec Zhongyuan Petroleum Company Limited	1,391
Sinopec Shengli Oil Field Dynamic Company Limited	1,361
Sinopec Beijing Yanshan Company	1,202
Oil and gas business acquised from China Resources Enterprise Limited.	879

The main goodwill of the Group arose from the difference between fair value of identifiable assets and liabilities of the companies acquired and purchase price.

(2)The main provision for impairment of goodwill

Name of investee or goodwill items	At 31 December 2017 RMB million
Sinopec Yangzi Petrochemical Company Limited	2,744
Sinopec Qilu Branch	2,161
Sinopec Shengli Oil Field Dynamic Company Limited	1,361
Sinopec Zhongyuan Petroleum Company Limited	1,391

Provision of impairment results from Group's assessments on goodwill's recoverable amount, the recoverable amount is based on future cash flows. 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 from10.4% to 11.0% under the assumption that the cash flows beyond the one–year period are maintained stable. But the key assumption for calculating the present value of future cash flow might change, if Management believes that there is negative change, the carrying amount might exceed the recoverable amount. Key assumptions applied for cash flow forecasts for these entities are the gross margin and sales volume. Management determined the budgeted gross margin based on previous gross margin achieved and management's expectation on the future trend of the prices of crude oil and petrochemical products. The projection of sales volume was based on the production capacity and/or the sales volume that has been achieved.

18. Long-term deferred expenses

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
1. Expenses on improvement of operating leased fixed assets	2,124	1,888	1,524
2. Site rent	29	33	21
3. Amortization of mobile house	852	883	960
4. Catalyst	3,524	3,391	4,059
5. Drilling tools	2,420	2,421	2,676
6. Stations and depots rent	8,347	7,660	7,477
7. Lease	31	39	34
8. Others	1,187	1,094	982
Total	**18,514**	**17,409**	**17,733**

Other long-term deferred expenses were mostly from the preliminary expense of SSC's projects and others.

19. Deferred tax assets and liabilities

(1) Deferred income tax assets and liabilities recognized

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Deferred income tax assets			
Receivables and inventory	1,532	1,135	1,632
Fixed assets and oil& gas assets	13,087	9,653	7,127
Accrued item	3,783	2,238	2,170
Deductible loss	2,362	2,477	6,039
Other items	315	254	932
Subtotal	**21,079**	**15,757**	**17,900**
Deferred income tax liabilities			
Fixed assets and oil& gas assets	9,952	14,639	17,374
Available for sale financial assets	215	389	442
Other items	877	476	178
Subtotal	**11,044**	**15,504**	**17,994**
Elimination Between deferred tax assets and liabilities	4,339	7,425	9,237

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

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Deferred tax assets	16,740	8,332	8,663
Deferred tax liabilities	6,705	8,079	8,757

(2) Deferred income tax assets unrecognized

As at 31 December 2017, some subsidiaries estimate that they cannot generate enough taxable income against deductible temporary difference in the future because of consecutive losses, the deductible temporary difference of the deficit enterprise's unrecognized deferred income tax assets totalled RMB 142 billion, of which the deductible losses in the operation was RMB 43 billion. Amounts of these deductible losses due in 2018, 2019, 2020, 2021 and 2022 are RMB 7 billion, RMB 11 billion, RMB 8 billion RMB 6 billion and RMB12 billion respectively.

20. Other non-current assets.

Items	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Loans	201,080	207,631	173,725
Membership fees of futures	6,926	6,761	6,731
Refundable deposits from Finance Company	2,349	2,174	2,125
Total	**210,355**	**216,566**	**182,581**

The medium and long-term loans are all provided by Sinopec Century Bright Capital Investment Ltd to SIPC.

21. Provision for Assets impairment

Item	Balance at 1 January 2017 RMB million	Additions for the year		Deductions for the year			Balance at 31 December 2017 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	7,255	1,551	228		99	260	8,675
Inventory impairment provisions	1,429	16,654	37		457	60	17,603
Provision for impairment of long term equity investment	68,978	936			2	53	69,859
Provision for impairment of fixed assets	34,018	14,565	217		1,023	190	47,587
Provision for impairment of oil and gas assets	30,645	8,875				115	39,405
Provision for impairment of construction in progress	1,938	252			139	108	1,943
Provision for impairment of intangible assets	1,043	19	29		1	16	1,074
Provision for impairment of goodwill	8,587	198				1	8,784
Other	1,663	39				60	1,642
Total	**155,556**	**43,089**	**511**		**1,721**	**863**	**196,572**

Continued:

Item	Balance at 1 January 2016 RMB million	Increase		Decrease			Balance at 31 December 2016 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	5,870	1,651	21		125	162	7,255
Inventory impairment provisions	4,832	589	318		4,095	215	1,429
Provision for impairment of long term equity investment	68,950	1	45		11	7	68,978
Provision for impairment of fixed assets	30,285	4,499	33		779	20	34,018
Provision for impairment of oil and gas assets	20,013	10,588	49			5	30,645
Provision for impairment of construction in progress	482	1,487	3		21	13	1,938
Provision for impairment of intangible assets	1,024	10	13		3	1	1,043

Item	Balance at 1 January 2016 RMB million	Increase		Decrease			Balance at 31 December 2016 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Provision for impairment of goodwill	8,580	7					8,587
Other	1,417	180	67		1		1,663
Total	**141,453**	**19,012**	**549**		**5,035**	**423**	**155,556**

Continued:

Item	Balance at 1 January 2015 RMB million	Increase		Decrease			Balance at 31 December 2015 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	10,829	560	28		220	5327	5,870
Inventory impairment provisions	4,004	3,766	226		3,131	33	4,832
Provision for impairment of long term equity investment	12,412	657	68,194		1	12,312	68,950
Provision for impairment of fixed assets	30,400	165	184		428	36	30,285
Provision for impairment of oil and gas assets	75,319	4,209	10			59,525	20,013
Provision for impairment of constrction materials	907					907	
Provision for impairment of construction in progress	2,410	118			113	1,933	482
Provision for impairment of intangible assets	1,023	7	1		1	6	1,024
Provision for impairment of goodwill	21,012					12,432	8,580
Other	1,302	122	54		23	38	1,417
Total	**159,618**	**9,604**	**68,697**		**3,917**	**92,549**	**141,453**

22. Short-term loans

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Credit loans	145,436	116,121	139,443
Mortgage loans	60	147	82
Guarantee loans	1	1	1,308
Total	**145,497**	**116,269**	**140,833**

23. Bills payable

Categories	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Bank acceptance bills	8,755	8,709	7,535
Commercial acceptance bills	3,151	1,379	640
Total	**11,906**	**10,088**	**8,175**

24. Accounts payable

(1) Aging analysis on accounts payable is as follows

Aging	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	226,148	91.55	205,023	90.88	159,552	88.87
1-2 years	11,202	4.53	11,845	5.25	12,751	7.10
2-3 years	4,710	1.91	4,716	2.09	4,355	2.43
Over 3 years	4,970	2.01	4,016	1.78	2,870	1.60
Total	**247,030**	**100**	**225,600**	**100**	**179,528**	**100**

No significant accounts payables of the Group aged over 3 years need to be disclosed.

25. Advances from customers

Aging	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	144,851	97.02	119,498	94.80	104,813	88.96
Above 1 year	4,444	2.98	6,556	5.20	13,006	11.04
Total	**149,295**	**100**	**126,054**	**100**	**117,819**	**100**

No significant advances from customers of the Group over one year need to be disclosed.

26. Employee benefits payable

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Employees benefits payables	**10,200**	**5,387**	**2,938**
1. Wages, bonuses, allowances and subsidies	6,955	2,592	271
2. Welfare expense	1,683	878	513
3. Social insurances	448	466	507
4. Housing reserve fund	149	379	454
5.Trade union expenditure	479	419	358
6.Employee education expenses	43	56	68
7.Labor cost	56	91	172
8.Dismiss welfare	349	309	395
9.Housing subsidies	13	16	16
10.Other	25	181	184
Long-term employees benefits payables	**2,349**	**2,419**	**2,482**
1. Post-employment benefit of defined benefit plan	2,175	2,233	2,374
2. Termination benefits over 1 year	174	186	108
Total	**12,549**	**7,806**	**5,420**

27. Taxes and fees payable

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Value added tax	9,819	10,790	6,120
Consumption tax	39,768	30,033	20,740
Resource tax	506	458	305
Enterprise income tax	14,696	7,507	4,636
Land value added tax	852	897	869
City maintenance and construction tax	3,175	2,915	2,380
Land use tax	1,805	1,520	1,205
Special petroleum proceeds	12	7	786
Education surcharges	2,884	2,647	13
Individual income tax	1,365	950	2,107
Others	2,536	2,296	2,354
Total	**77,418**	**60,020**	**41,515**

28. Other accounts payables

Aging	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	55,892	71.32	42,265	72.30	50,296	73.29
1-2 years	8,001	10.21	3,690	6.31	11,233	16.37
2-3 years	4,939	6.30	5,412	9.26	1,839	2.68
Over 3 years	9,541	12.17	7,094	12.13	5,257	7.66
Total	**78,373**	**100**	**58,461**	**100**	**68,625**	**100**

No significant other payables of the Group aged over 3 years needs to be disclosed.

29. Non-current liabilities due within one year

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Long-term loan due within 1 year	41,746	13,209	14,680
(1)Credit loans	41,746	12,909	14,488
(2)mortgage loans			
(3)Guarantee loans		300	192
Bonds payable due within 1 year	34,053	58,043	4,869
Other long-term liability due within one year	1,039	725	674
Total	**76,838**	**71,977**	**20,223**

Other long-term liability due within one year is mainly from special accounts and finance lease.

30. Other current liabilities

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Short-term financing bonds	5,736	24,347	42,414
Borrowed capital of the financial company	8,200	4,000	10,000
Financial company deposits	15,626	17,386	9,230
Funds from sales of financial assets with repurchase agreement	6,418	3,114	9,690
Dividends payable	6,833	2,063	2,429
Other current liabilities	211	204	302
Total	**43,024**	**51,114**	**74,065**

31. Long-term loans

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Credit loans	37,662	59,077	74,685
Mortgage loans	1	521	488
Guarantee loans	14	6,708	833
Total	**37,677**	**66,306**	**76,006**

32. Bonds payable

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Corporate bond	218,537	216,688	206,008

33. Long-term payables

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Financing instalments payable	57	57	60
Finance lease payment payable	699	1,145	1,138
Other long-term payable	15,187	14,973	13,077
Less: Unrealized financing costs	52	69	69
Total	**15,891**	**16,106**	**14,206**

At 31 December 2017, 2016 and 2015, the book value of long-term payables was RMB 15,891 million,16,106million and RMB 14,206million respectively.

Note: Pursuant to the notice Cai Gong Zi [1997] No. 268 "The Issue Regarding production safety management Fund of China Petroleum & Chemical Corporation" issued by the Ministry of Finance, the Group established a security guarantee fund. The accumulated balance accounts of security funds are RMB 4,627million and RMB 4,627 million in the end of 2016 and 2017. The other long-term payables are payables to shareholders.

34. Estimated liabilities

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
External guarantee	25	25	30
Asset retirement obligations	39,444	36,959	33,152
Others	812	2,636	310
Total	**40,281**	**39,620**	**33,492**

The asset retirement obligation represents provision for future dismantlement costs of oil and gas properties. The Group has established a set of standardized measurements for dismantling oil and gas properties according to the industry practices, and actively accept the obligations of the dismantlement.

35. Paid-in Capital

Item	2017 RMB million	2016 RMB million	2015 RMB million
Beginning balance	**325,908**	**319,898**	**303,222**
Appropriation increase from Ministry of Finance	466	6,010	16,676
Closing balance	**326,374**	**325,908**	**319,898**

36. Capital reserves

Item	2017 RMB million	2016 RMB million	2015 RMB million
Beginning balance	**97,561**	**97,538**	**51,575**
Capital premium			45,876
Other equity change in investees	(58)	151	105
Other	(520)	(128)	(18)
Closing balance	**96,983**	**97,561**	**97,538**

37. Specific reserve

Item	2017 RMB million	2016 RMB million	2015 RMB million
Beginning balance	**1,091**	**1,042**	**931**
Additions during the year	3,022	2,984	3,570
Reductions during the year	(2,853)	(2,935)	(3,459)
Closing balance	**1,260**	**1,091**	**1,042**

38. Surplus reserves

Item	2017 RMB million	2016 RMB million	2015 RMB million
Beginning balance	**205,373**	**204,977**	**183,272**
Statutory reserve fund	4,013	396	4,697
Voluntary reserve fund	29		17,008
Closing balance	**209,415**	**205,373**	**204,977**

39. General risk reserve

Item	2017 RMB million	2016 RMB million	2015 RMB million
Beginning balance	**1,328**	**877**	**717**
Increase: General risk reserve	132	451	160
Closing balance	**1,460**	**1,328**	**877**

General risk reserve refers to accrual of affiliated financial enterprises (Sinopec Finance Co., Ltd. and Sinopec Shanghai Zheshi Futures Co., Ltd.).

40. Retained earnings

Item	2017 RMB million	2016 RMB million	2015 RMB million
Beginning balance of retained profits	132,869	144,491	154,510
Add: Current year net profit	10,393	8,357	22,591
Less: Extraction surplus reserve	4,539	396	21,705
Dividends distribution	8,504	19,132	10,745
Provision for general risk	132	451	160
Transfer of three supplies and estate management	102		
Closing balance of undistributed profit	**129,985**	**132,869**	**144,491**

This transfer of "three supplies and estate management" refers to state-owned enterprises' social function of providing water, electricity, heating, gas and property management services for their employees' home.

41. Operating revenue and operations costs

Item	2017		2016		2015	
	Revenues RMB million	Operating costs RMB million	Revenues RMB million	Operating costs RMB million	Revenues RMB million	Operating costs RMB million
1.Main operations	**3,963,773**	**3,478,387**	**3,243,075**	**2,798,300**	**3,442,386**	**3,002,295**
Exploitation of oil and gas	146,971	142,058	106,397	118,169	126,487	107,366
Oil refining	1,006,749	698,286	850,299	548,294	923,097	652,004
Chemical production	458,427	401,520	353,225	303,498	349,586	310,856
Sales of refined oil	1,195,864	1,103,885	1,030,854	941,612	1,088,949	1,006,543
Petroleum and petrochemical engineering	88,008	86,071	86,377	92,692	110,489	97,503
Others	1,067,754	1,046,567	815,923	794,035	843,778	828,023
2.Other operations	**51,666**	**45,952**	**47,293**	**44,038**	**35,939**	**30,443**
Subtotal	**4,015,439**	**3,524,339**	**3,290,368**	**2,842,338**	**3,478,325**	**3,032,738**
Elimination of inter-segment	1,615,121	1,603,962	1,321,148	1,313,498	1,431,053	1,434,502
Total	**2,400,318**	**1,920,377**	**1,969,220**	**1,528,840**	**2,047,272**	**1,598,236**

Other operating revenue was mainly from the sales of auxiliary material, providing services, lease and others activities.

42. Taxes and surcharges

Item	2017 RMB million	2016 RMB million	2015 RMB million
Consumption tax	190,571	192,007	197,491
Special Petroleum Proceeds	5	(7)	(26)
Resource tax	4,929	3,954	4,940
City maintenance and construction tax	18,647	18,595	18,990
Educational Surtax	14,089	14,022	14,283
Land use tax	4,823	2,437	
Other	6,563	6,970	6,018
Total	**239,627**	**237,978**	**241,696**

43. Financial expenses

Categories	2017 RMB million	2016 RMB million	2015 RMB million
The net interest expenses	2,969	5,250	4,479
Incl: Interest expenses	8,621	9,021	7,410
Interest income	5,652	3,771	2,931
Exchange net loss	268	1,432	7,241
Other expenses	946	1,720	1,391
Incl: Commission fees	860	108	525
Total	**4,183**	**8,402**	**13,111**

44. Assets impairment losses

Item	2017 RMB million	2016 RMB million	2015 RMB million
Impairment loss for bad and doubtful accounts	1,552	1,651	560
Allowance for diminution in value of inventories	16,655	589	3,766
Long term equity investment impairment loss	936	1	657
Fixed assets impairment loss	14,565	4,499	165
Oil and gas assets impairment loss	8,875	10,588	4,209
Construction in progress impairment loss	252	1,487	118
Intangible assets impairment loss	19	10	7
Goodwill impairment loss	198	7	
Other	37	180	122
Total	**43,089**	**19,012**	**9,604**

45. Gain from changes of fair value (loss)

Item	2017 RMB million	2016 RMB million	2015 RMB million
1.Financial assets held for trading	194		1
2.Financial liabilities held for trading	(2)		
3.Derivative financial instruments	105	152	282
4.The hedging losses	(353)	(301)	439
5.Other	47	(60)	7
Total	**(9)**	**(209)**	**729**

46. Investment income

Categories	2017 RMB million	2016 RMB million	2015 RMB million
Income from long-term equity investment	13,135	14,783	1,082
Incl: Accounted for under equity method	9,217	(5,792)	1,029
Disposal of long-term equity investments	(23)	13	53
Re-measured value at the date that control is lost		20,562	
Re-measured value of previously held equity interest at the date of acquisition (See Note XIII.1)	3,941		
Income from held-to-maturity investments	351	233	43
Income from available-for-sale financial assets	1,186	1,069	4,816
Other investment income	(1,578)	734	266
Total	**13,094**	**16,819**	**6,207**

47. Gains or losses on assets disposal

Categories	2017 RMB million	2016 RMB million	2015 RMB million
Fixed assets	(2,013)	(1,183)	10
Construction in progress	(39)	(23)	(25)
Intangible assets	(272)	187	111
Oil and gas assets	(28)	(4)	(8)
Non-monetary assets exchange		1	
Other assets	130	(161)	110
Total	**(2,222)**	**(1,183)**	**198**

48. Other income

Items	2017 RMB million	2016 RMB million	2015 RMB million
(1) Governments grants related to assets	**497**		
Special grants for energy saving and emission deduction	13		
Funds for acquiring special equipment for environmental protection	21		
Other grants related to environmental protection	35		
Funds for acquiring special equipment	13		
Tax refund and deduction	110		
Funds related to R&D projects	23		
Subsidy for interest payable	246		
Grants related to upgrade of oil quality	2		
Others	34		
(2) Government rants related to income	**4,838**		
Subsidy for upgrading technology related to energy saving	10		
Subsidy for other management of technology protection	13		
Grants for technology development	249		
State funds for ownership transformation of technological institute	164		
Funds for retired and terminated employees	149		
Funds for scientific study at sate level	402		
Tax refund and deduction	1,715		
Subsidy for interest payable	2		
Subsidy for staffs' housing	111		
Funds/subsidy for industry-specific projects	494		
Subsidy for shale gas	1,301		
Others	228		
Total	**5,335**		

49. Non-operating income

Categories	2017 RMB million	2016 RMB million	2015 RMB million
Debt restructuring gains	50		4
Penalty income	42	48	33
Government grants	1,982	5,332	5,937
Accounts payable that cannot be paid	712	427	1,253
Gains on understated inventory	71	32	325
Revenue from liquidated damages	330	67	15
Others	359	744	1,238
Total	**3,546**	**6,650**	**8,805**

50. Non-operating expenses

Categories	2017 RMB million	2016 RMB million	2015 RMB million
Losses on damaged or expired assets	22	54	75
Losses on debt restructuring	58	2	3
Fines	150	151	100
Donation	221	199	178
Abnormal losses	14	51	6
Expected losses on pending litigation	19	2	178
Losses on liquidated damages /compensations	220	375	43
Others	3,146	3,177	3,044
Total	**3,850**	**4,011**	**3,627**

Note: Other expenses mainly refers to the subsidy expenses for employees terminated by negotiation, employees who were terminated because of restructure of state-owned enterprise, and employees who left their post and families of the employees above-mentioned.

51. Income tax expenses

Item	2017 RMB million	2016 RMB million	2015 RMB million
Current income tax	30,061	25,491	19,458
Deferred income tax	(10,816)	(786)	(1,430)
Total	**19,245**	**24,705**	**18,028**

52. Other comprehensive income attributed to shareholders of parent company

(1) Items indicating circumstances about other comprehensive income, the influence of the income tax and the process of change to profit or loss.

Items	2017 RMB million			2016 RMB million			2015 RMB million		
	Pre-tax amount	Income tax	After-tax amount	Pre-tax amount	Income tax	After-tax amount	Pre-tax amount	Income tax	After-tax amount
1. Items that cannot be reclassified to profit or loss	**14**	**1**	**13**	**(225)**	**(6)**	**(219)**	**(170)**	**(33)**	**(137)**
(1) changes of net liabilities or net assets due to recalculate defined benefit plans	(7)	1	(8)	(33)	(6)	(27)	(178)	(33)	(145)
(2)Shares of other comprehensive income of investee that cannot be reclassified to profit or loss under equity method	21		21	(192)		(192)	8		8
2. Items that may be reclassified to profit or loss	**(1,544)**	**(387)**	**(1,157)**	**15,262**	**310**	**14,952**	**(4,779)**	**522**	**(5,301)**
(1)Shares of other comprehensive income of investee that may be reclassified to profit or loss under equity method	2,024		2,024	2,337		2,337	(7,389)		(7,389)
Less: Amount recognized in other comprehensive income in prior period transferred to profit or loss in current period									
Subtotal	**2,024**		**2,024**	**2,337**		**2,337**	**(7,389)**		**(7,389)**
(2)Profit or loss of available-for-sale financial assets	(441)	(133)	(308)	(175)	1	(176)	371	128	243
Less: Amount recognized in other comprehensive income in prior period transferred to profit or loss in current period	97	24	73	64	16	48	278	69	209
Subtotal	**(538)**	**(157)**	**(381)**	**(239)**	**(15)**	**(224)**	**93**	**59**	**34**
(3) Effective portion of cash flow hedge	(175)	(230)	55	5,761	(467)	6,228	594	463	131
Adjustment amount transferred to initial recognition amount of hedged items				(9)	(1)	(8)			
Less: Amount recognized in other comprehensive income in prior period transferred to profit or loss in current period				(4,464)	(793)	(3,671)			
Subtotal	**(175)**	**(230)**	**55**	**10,216**	**325**	**9,891**	**594**	**463**	**131**
(4) Translation difference in foreign currency statements	(2,855)		(2,855)	2,948		2,948	1,923		1,923
Subtotal	**(2,855)**		**(2,855)**	**2,948**		**2,948**	**1,923**		**1,923**
3. Total other comprehensive income	**(1,530)**	**(386)**	**(1,144)**	**15,037**	**304**	**14,733**	**(4,949)**	**489**	**(5,438)**

(2)Reconciliation of other comprehensive income

Items	31 December 2014 RMB million	Changes in 2015 RMB million	31 December 2015 RMB million	Changes in 2016 RMB million	31 December 2016 RMB million	Changes in 2017 RMB million	31 December 2017 RMB million
Changes of net liabilities or net assets due to recalculate defined benefit plans	(54)	(222)	(276)	(28)	(304)	(8)	(312)
Shares of other comprehensive income of investee that cannot be reclassified to profit or loss under equity method	77	8	85	(192)	(107)	21	(86)
Shares of other comprehensive income of investee that may be reclassified to profit or loss under equity method	(9,350)	(19,799)	(29,149)	2,337	(26,812)	2,024	(24,788)
Changes in fair value of available-for-sale financial assets	208	34	242	(225)	17	(381)	(364)
Effective portion of cash flow hedges	(8,615)	131	(8,484)	9,891	1,407	55	1,462
Translation difference in foreign currency statements	(15,412)	14,410	(1,002)	2,950	1,948	(2,855)	(907)
Other comprehensive income attributable to share-holders of the company	**(33,146)**	**(5,438)**	**(38,584)**	**14,733**	**(23,851)**	**(1,144)**	**(24,995)**

53. Notes to cash flow statement

(1) Supplementary Information of cash flow statement

Supplementary Information	2017 RMB million	2016 RMB million	2015 RMB million
1.Reconciliation of net profit to cash flows from operating activities			
Net profit	38,960	28,199	44,094
Add: Provision for asset impairment	43,089	19,012	9,604
Depreciation of fixed assets, oil and gas assets depletion, investment property depreciation and amortization	116,201	110,022	98,459
Amortization of intangible assets	5,422	5,254	4,900
Amortization of long-term prepaid expenses	7,010	6,908	7,884
Net losses/(gain) on disposal of fixed assets, intangible assets and other long-term assets	2,222	1,184	(198)
Expired costs of fixed assets, oil and gas assets and investment property	22	54	75
Gains on fair value change	9	209	(729)
Financial expenses	8,843	10,450	14,609
Exploration costs	11,120	7,479	6,096
Investment income(loss)	(13,093)	(16,819)	(6,207)
Decrease/(increase) in deferred income tax assets	(5,201)	1,803	(2,338)
Increase in deferred income tax liabilities	(5,615)	(2,589)	908
Decrease/(increase) in inventories	(28,854)	(19,381)	35,428
Decrease/(increase) in operating receivables	(15,154)	(6,705)	20,535
Increase/(decrease) in operating payables	39,937	69,281	(63,471)
Increase/(decrease) in safety fund reserve	169	65	220
Net cash flows from operating activities	**205,087**	**214,426**	**169,869**
2.Net increase in cash and cash equivalents			
Cash at end of year	**196,095**	**164,825**	**94,428**
Less: Cash at beginning of year	164,825	94,428	35,280
Net increase in cash and cash equivalents	**31,270**	**70,397**	**59,148**

(2) Cash and cash equivalents

Item	2017 RMB million	2016 RMB million	2015 RMB million
1.Cash	196,095	164,825	94,428
Incl.: Cash on hand	64	68	64
Bank deposit readily available for payment	193,663	163,183	92,790
Other monetary fund readily available for payment	2,368	1,574	1,574
Cash and cash equivalents at the end of this year	196,095	164,825	94,428

54. Major monetary items denominated in foreign currency

Items	Amount of foreign currency million	Exchange Rate	RMB million
Cash			
Incl: USD	7,194	6.5342	47,007
EUR	358	7.8023	2,793
HKD	2,985	0.83591	2,495
GBP	1	8.7792	8
Others			6,231
Short-term loans			
Incl: USD	8,129	6.5342	53,117
EUR	10	7.8023	78
Non-current liabilities due within one year			
Incl: Bonds maturing within one year-USD	1,748	6.5342	11,422
Bonds maturing within one year-EUR	850	7.8023	6,631
Long-term loans due with one year-USD	2,466	6.5342	16,114
Long-term loans due with one year-EUR	1,498	7.8023	11,688
Other current liabilities			
Incl: Short-term bonds payable-USD	878	6.5342	5,737
Long-term loans			
Incl: USD	1,268	6.5342	8,286
Bonds payable			
Incl: USD	26,261	6.5342	171,594
EUR	1,194	7.8023	9,315

55. Segment information

For the year ended 31 December 2017

Item	Exploration and Production RMB million	Refining RMB million	Chemicals RMB million	Marketing and Distribution RMB million
1. Operating revenue	157,504	1,011,853	474,471	1,224,198
Incl: External revenue	79,700	137,582	424,856	1,220,236
Intra-segment revenue	77,804	874,271	49,615	3,962
2. Total operating costs	209,240	948,179	453,474	1,191,026
3.Operating profit/(loss)	(48,629)	65,462	34,543	36,071
4.Total assets	343,404	273,125	197,224	309,726
5.Total liabilities	99,367	101,429	68,309	163,680

For the year ended 31 December 2017 (continued)

Item	Oil & Petrochemical Engineering Technical Services RMB million	Others RMB million	Elimination of inter-segment RMB million	Total RMB million
1. Operating revenue	89,328	1,079,566	(1,636,602)	2,400,318
Incl: External revenue	89,328	632,676	(184,060)	2,400,318
Intra-segment revenue		446,890	(1,452,542)	
2. Total operating costs	98,925	1,091,873	(1,634,710)	2,358,007
3.Operating profit/(loss)	(8,871)	(15,620)	(4,447)	58,509
4.Total assets	129,560	1,318,140	(314,481)	2,256,698
5.Total liabilities	104,083	1,019,042	(377,778)	1,178,132

For the year ended 31 December 2016

Item	Exploration and Production RMB million	Refining RMB million	Chemicals RMB million	Marketing and Distribution RMB million
1. Operating revenue	115,939	855,786	367,197	1,052,857
Incl: External revenue	56,985	108,469	328,583	1,049,377
Intra-segment revenue	58,954	747,317	38,614	3,480
2. Total operating costs	179,838	800,459	350,087	1,020,294
3.Operating profit/(loss)	(44,618)	54,410	23,789	35,554
4.Total assets	402,477	260,902	179,234	292,329
5.Total liabilities	95,882	82,171	60,098	132,920

For the year ended 31 December 2016 (continued)

Item	Oil & Petrochemical Engineering Technical Services RMB million	Others RMB million	Elimination of inter-segment RMB million	Total RMB million
1. Operating revenue	87,539	830,463	(1,340,561)	1,969,220
Incl: External revenue	87,539	504,270	(166,003)	1,969,220
Intra-segment revenue		326,193	(1,174,558)	
2. Total operating costs	102,367	822,083	(1,340,746)	1,934,382
3.Operating profit/(loss)	(14,502)	(3,296)	(1,072)	50,265
4.Total assets	141,442	1,181,549	(298,542)	2,159,391
5.Total liabilities	105,573	864,900	(255,053)	1,086,491

For the year ended 31 December 2015

Item	Exploration and Production RMB million	Refining RMB million	Chemicals RMB million	Marketing and Distribution RMB million
1. Operating revenue	138,653	926,616	362,875	1,106,667
Incl: External revenue	67,634	125,654	320,132	1,103,611
Intra-segment revenue	71,019	800,962	42,743	3,056
2. Total operating costs	162,438	909,649	346,823	1,078,391
3.Operating profit/(loss)	(23,110)	16,965	20,200	30,735
4.Total assets	447,306	264,574	189,550	283,418
5.Total liabilities	96,726	58,578	54,050	118,476

For the year ended 31 December 2015 (continued)

Item	Oil & Petrochemical Engineering Technical Services RMB million	Others RMB million	Elimination of inter-segment RMB million	Total RMB million
1. Operating revenue	111,731	862,008	(1,461,278)	2,047,272
Incl: External revenue	111,731	509,952	(191,442)	2,047,272
Intra-segment revenue		352,056	(1,269,836)	
2. Total operating costs	107,922	857,431	(1,465,192)	1,997,462
3.Operating profit/(loss)	4,203	6,798	1,153	56,944
4.Total assets	153,922	888,081	(168,345)	2,058,506
5.Total liabilities	101,435	629,418	(53,157)	1,005,526

Ⅸ. CONTINGENCE

1. Contingent liabilities from guarantees

As at 31 December 2017, Sinopec Group had provided several extra-group guarantees as below:

1) Guarantee provided for outsiders

a. The Company has provided guarantees amounted to RMB 74,555 million to SIPC which include RMB 59,659 million secured loan, RMB 13,074 performance guarantee and RMB 1,822 million other guarantee.

b. Assets Management Co., Ltd. has provided 130 guarantees, which amounted to RMB 456 million.

4 undue guarantees amounted to 325 million are provided for its associates and joint ventures, such as joint liability loan guarantee to its associate named Anhui AnqingShuguang Chemical Co., Ltd amounted to RMB 257 million; joint liability loan guarantee to its joint venture named Xinjiang Weimei Chemical Co., Ltd. amounted to RMB 67million; joint liability loan guarantee to its associate named Yangtze River Acetyls Company, amounted to RMB 1 million.

Assets Management Co., Ltd. has provided 126 overdue guarantees amounted to RMB 131 million. Those guarantees are mainly involved for its subsidiaries before they were incorporated in Sinopec Group. As for judgment and potential liable guarantees, Sinopec Group has provision for RMB 25 million estimated liabilities. The rest are not involved in litigation or cannot be estimated the extent of responsibility.

c. Sinopec Corp. has provided undue loan guarantees of RMB 24,192 million, which are all involved for its associates and joint ventures. Sonangol Sinopec International Limited has provided RMB 6,471 million loan guarantees for New Bright International Development Limited and RMB 3,261 million loan guarantee for SIPC SSI 15#. Sinopec Great Wall Energy and Chemical Industry Company Limited has provided RMB 940 million loan guarantee for ZhongAnLianHe Coal Chemical Co., Ltd. Sinopec Corp. has provided RMB 13,520 million loan guarantee for ZhongtianHechuang Energy Co., Ltd.

2) Guarantees for internal divisions

The Group has guaranteed 5 overdue payments worth RMB 10 million, they were specifically conducted by Assets Management Co. Ltd for its Henan and Anhui divisions prior to their combinations with the Group.

2. Legal contingencies

The Group is a defendant in certain lawsuits as well as the pointed 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.

X. SUBSEQUENT EVENTS

1. Non-public and seasoned equity offering of SSC (A shares and H shares)

According to the file of "About the reply to the issues of SSC's non-public and seasoned equity offering (A share and H share)" (Guo Zi Chan Quan No. [2017] 1169) replied by State-owned assets supervision and administration commission, "About approving the non-public and seasoned equity offering of SSC" (Zheng Jian Xu Ke No. [2018] 142) and "About approving SSC's overseas seasoned equity offering" (Zheng Jian Xu Ke No. [2018] 142) replied by China Securities Regulatory Commission, and approval of the first extraordinary general meeting held in 2017, SSC seasonally issued 1,526,717,556 A shares and 3,314,961,482 H shares in the January of 2018, and raised funds worth RMB 7.638 billion which was totally contributed to supplement liquidity. After completing this issue, the number of outstanding shares is 18,984,340,033, of which 70.18% are directly and indirectly held by the Group.

2. Dividend distribution

According to the discretion of board of directors on 23 March 2018, the board of directors of Sinopec Corp. proposed to distribute cash dividends of RMB 0.4 per share. This proposal is yet to be approved by the annual general meeting of shareholders.

According to the discretion of board of directors on 16 March 2018, the board of directors of SEG proposed to distribute cash dividends of RMB 0.144 per share. This proposal is yet to be approved by the annual general meeting of shareholders.

3. Other events subsequent to the balance sheet date

As at 25 April 2018, there are no other events subsequent to the balance sheet date to be disclosed.

Ⅺ. RELATED PARTY RELATIONSHIP AND TRANSACTIONS

1. Related parties

(1)Controller of the Company

The ultimate controller of the Company is SASAC.

(2) Subsidiaries of the Company

Information of subsidiaries of the Company is stated as Note VII.1.

(3) Joint ventures and associates of the Company

a. Information of significant joint ventures of associates

Name of joint venture or associate	Principal place of business	Registration place	Principal activities	Shareholding%		Voting rights%
				Direct	Indirect	
Joint venture						
BASF-YPC Company Limited	China	Nanjing, China	Production and sales of petrochemical products		50.00	50.00
Fujian Refining & Petrochemical Company Limited	China	Fujian, China	production of refined oil products		50.00	50.00
Sinopec SABIC Tianjin petrochemical	China	Tinajin China	Production and sales petrochemical products		50.00	50.00
Taihu	Russia	Cyprus	Crude oil and natural gas exploration		49.00	50.00
YASREF	Saudi Arabia	Saudi Arabia	Oil refining and processing		37.50	37.50
Associate						
SIPC	Overseas	Beijing, China	Crude oil and natural gas exploration	30.00		30.00
Sinopec Sichuan to East China Gas Pipeline Co., Ltd.	China	Wuhan, China	Operation of natural gas pipelines and auxiliary facilities		50.00	50.00
Zhongtian Hechuang Energy Co., Ltd	China	Inner Mongolia	Production of coal chemical		38.75	38.75
SIBUR	Russia	Russia	processing natural gas		10.00	10.00
Caspian Investments Resources Ltd.	The Republic of Kazakhstan	British Virgin Islands	Crude oil and natural gas extraction		50.00	50.00

b. Financial information of significant joint ventures and associates is stated as Note VIII. 12.

2. Related transactions information of joint ventures and associates

Item	2017 RMB million	2016 RMB million	2015 RMB million
Sales	189,504	141,411	137,060
Purchase	98,580	62,637	49,024
Loan funds (USD million)	69,744	63,920	55,458
Loan funds (EUR million)	2	2	1,491
Recovered funds (USD million)	67,780	57,899	49,891
Interest income	8,130	7,513	5,281
Rendering services	10,887	5,945	15,547
Including: Engineering Construction	4,901	5,497	14,872
Accepting services	468	548	117
Agent income	102	97	90
Leasing income	33	5	2

1. Unsettled amount of related transaction of joint ventures and associates

(1) Receivables

Unsettled Items	At 31 December 2017			At 31 December 2016			At 31 December 2015		
	Book balance RMB million	%	Provision for bad debts RMB million	Book balance RMB million	%	Provision for bad debts RMB million	Book balance RMB million	%	Provision for bad debts RMB million
Accounts receivables	3,251	4.10	22	3,166	4.70	22	6,808	11.56	35
Prepayments	41	0.31		17	0.15		47	0.53	
Other accounts receivables	1,074	3.78	67	5,027	16.47	64	1,647	4.82	91
Shareholder loans	25,043	99.98		23,904	95.70		28,283	100	
Loan funds	267,105	95.80		268,543	95.83		213,134	94.80	
Entrusted loans	495	29.78							

(2) Payables

Unsettled Items	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Book balance RMB million	%	Book balance RMB million	%	Book balance RMB million	%
Accounts payables	4,725	1.91	1,581	0.7	3,900	2.17
Advances from customers	3,738	2.50	4,430	3.51	12,081	10.25
Other accounts payables	325	0.42	1,979	3.38	8,357	12.18
Shareholder loans	10,165	100	9,998	100	8,220	100

XII. Explanation about the transfer on free charge

According to the file named "About the guidance to separate "three supplies and estate management" provided for employees' homes from stated-owned enterprises" (Guo Ban Fa No [2016] 45) published by general office of state council, "Methods for managing the funds compensating central state-owned enterprises for the placement of "three supplies and estate management" of their employees' homes to central government " (Cai Zi No. [2016] 38) published by ministry of finance and state-owned assets supervision and administration commission, and other files, the Group started to arrange the transfer of "three supplies and estate management" in 2016.

In 2017, Assets Management Co. Ltd, Zhongyuan Petroleum Exploration Bureau, Henan Petroleum Exploration Bureau, Jiangsu Petroleum Exploration Bureau, Northwest Petroleum Bureau, East China Petroleum Bureau, Sinopec Corporation and their affiliates conducted the separation of "three supplies and estate management". According to the Group's approvals, assets related to free transfer of "three supplies and estate management" and funds used for those assets remake had prepared in advance. This preparation wrote down equity interest attributed to parent company worth RMB 1,465 million, including RMB 102 million of retained earnings, RMB 496 million surplus reserves, RMB 867million capital reserve.

XIII. Explanation about the events related to companies' restructure

1. On 26 October 2017, a subsidiary of Sinopec Corporation named Gaoqiao petrochemical Co. Ltd acquired 50% equity interest of Shanghai SECCO Petrochemical investment Limited (SECCO) held by BP Chemical Investment, the consideration was RMB 10.135 billion. Prior to the transaction, Sinopec directly held 30% equity interest of SECCO, and indirectly held 20% equity interest of SECCO via its subsidiary named Sinopec Shanghai Petrochemical Company Limited. After this acquisition, SECCO became a 100% subsidiary of Sinopec Corporation. This acquisition created RMB 2.541 billion goodwill, and the consolidated income statement had recognized the investment income brought by re-measurement of equity held by Sinopec Corporation prior to this combination.

2. In the June of 2017, plan of Sinopec chemical company's overseas IPO had been approved by the 2016 general meeting of Sinopec shareholders. In this plan, Sinopec Chemical Sale Company would be transformed to Corporation prior to its overseas IPO. If the IPO succeed, Sinopec Corporation would still control most voting rights to Sinopec Chemical Sales Company and take it account in to the consolidated financial statements. This IPO still needs to be approved by the board of directors, shareholders and regulatory authorities (including State-owned assets supervision and administration commission and China securities regulatory commission).

XIV. Other important events

As at 25 April 2018, there are no other important events.

XV. NOTES TO THE MAIN ITEMS OF PARENT COMPANY'S FINANCIAL STATEMENTS

1. Long-term equity investment

Item	At 31 December 2017 RMB million	At 31 December 2016 RMB million	At 31 December 2015 RMB million
Investment in subsidiaries	337,437	335,602	324,514
Investment in joint ventures	2,817	2,773	2,590
Investment in associates	71,238	77,047	91,451
Subtotal	**411,492**	**415,422**	**418,555**
Less:Long-term equity investment impairment	74,485	74,486	74,486
Total	**337,007**	**340,936**	**344,069**

2. Operating revenue and operating costs

Item	2017 RMB million		2016 RMB million		2015 RMB million	
	Revenue	Costs	Revenue	Costs	Revenue	Costs
Revenue from intangible assets rental	6,798		9,392		9,639	

3. Investment income

Item	2017 RMB million	2016 RMB million	2015 RMB million
Long term equity investment gains	16,258	(2,007)	12,950
Incl.: Investment income recognized by the cost method	23,498	12,690	18,061
Investment income recognized by equity method	(7,199)	(14,697)	(5,640)
Gain on disposal of equity	(41)		529
Other investment gains	156	161	2,202
Total	**16,414**	**(1,846)**	**15,152**

4. Supplementary Information of cash flow statements

(1) Supplementary Information of cash flow statement

Supplementary Information	2017 RMB million	2016 RMB million	2015 RMB million
1.Reconciliation of net profit to cash flows from operating activities			
Net profit	**20,393**	**901**	**19,405**
Add: Depreciation of fixed assets, oil and gas assets depletion, investment property, depreciation and amortization	102	102	108
Amortization of intangible assets	523	522	524
Financial expenses	1,321	1,027	797
Investment losses	(16,414)	1,846	(15,152)
Decrease in inventory			
Decrease in operating receivables	8	(217)	(49)
Increase in operating payables	(2,811)	2,533	701
Net cash flows from operating activities	**3,122**	**6,714**	**6,334**
2.Net increase in cash and cash equivalents			
Cash at end of year	**10,607**	**19,108**	**25,068**
Less: Cash at beginning of year	19,108	25,068	17,387
Net increase in cash and cash equivalents	**(8,501)**	**(5,960)**	**7,681**

(2) Cash and cash equivalents

Item	2017 RMB million	2016 RMB million	2015 RMB million
1. Cash	10,607	19,108	25,068
Incl.: Cash on hand	1	1	1
Bank deposit readily available for payment	10,554	19,055	25,015
Other monetary fund readily available for payment	52	52	52
2. Closing balance of cash and cash equivalents	10,607	19,108	25,068

XVI. FINANCIAL STATEMENTS APPROVAL

The financial statements for the year ended 31 December 2015, 2016 and 2017 had been approved by the board of the directors of Sinopec Group.

China Petrochemical Corporation

Grant Thornton
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Review Report

GTCNZZ (2018) NO. 110ZC6263-T

To the Board of China Petrochemical Corporation

We have reviewed the interim financial information of China Petrochemical Corporation and its subsidiaries (hereinafter "the Group"), which comprises the consolidated balance sheet as at 30 June 2018 and the related consolidated statements of income and consolidated cash flow for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management of the Group is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with China Standard on Review No. 2101 Engagements to Review Financial Statements. This Standard requires us to plan and perform the review to obtain limited assurance about whether the Interim Financial Statements are free from material misstatement. A review is limited primarily to inquiries of the company personnel and analytical review procedures applied to the financial information and thus provides less assurance than an audit. We have not performed an audit, and therefore we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not presented fairly, in all material respects, the financial position of the Group as at 30 June 2018, and its financial performance and cash flows for the six-month period then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

Grant Thornton China | Certified Public Accountants:/s/ Ma Jian

Beijing, China

Certified Public Accountants:/s/ Liu Zhizeng

31 August 2018

Consolidated Balance Sheet

Items	Note	As at 30 June 2018 RMB million (Unaudited)	As at 31 December 2017 RMB million (Audited)
Current assets			
Cash	V.1	227,899	195,941
Financial assets held for trading		52,685	51,196
Bills receivable and accounts receivable	V.2	94,783	94,143
Prepayments		17,974	12,997
Other receivables		37,476	29,079
Inventories	V.3	273,293	263,250
Contract assets		16,960	
Non-current assets due within one-year		95,318	79,633
Other current assets		64,023	69,179
Total current assets		**880,411**	**795,418**
Non-current assets			
Available-for-sale financial assets			18,667
Long-term receivables		37,345	37,032
Long-term equity investments		131,987	128,166
Other equity instrument investments		8,907	
Fixed assets		570,449	590,389
Oil and gas assets		157,307	171,898
Construction in progress		135,496	134,647
Intangible assets		124,529	124,385
Goodwill		10,826	10,819
Long-term deferred expenses		17,768	18,514
Deferred tax assets		20,611	16,740
Other non-current assets		199,970	210,023
Total non-current assets		**1,415,195**	**1,461,280**
Total assets		**2,295,606**	**2,256,698**

Consolidated Balance Sheet (Continued)

Items	Note	As at 30 June 2018 RMB million (Unaudited)	As at 31 December 2017 RMB million (Audited)
Current liabilities			
Short-term loans	V.4	135,807	145,497
Bills payable and account payable		275,631	258,936
Advances from customers			149,295
Contract liabilities		150,509	
Employee benefits payable		17,209	10,200
Taxes and fees payable		44,263	77,418
Other payables		84,231	88,053
Non-current liabilities due within one year	V.5	65,705	76,838
Other current liabilities		43,239	36,191
Total current liabilities		**816,594**	**842,428**
Non-current liabilities			
Long-term loans	V.6	58,198	37,677
Bonds payable	V.7	205,719	218,537
Long-term payables		26,076	17,654
Estimated liabilities		41,775	40,281
Deferred tax liabilities		6,033	6,705
Other non-current liabilities		18,150	14,851
Total non-current liabilities		**355,951**	**335,704**
Total liabilities		**1,172,545**	**1,178,132**
Owner's equity			
Paid-in capital		326,374	326,374
Capital reserves		94,615	96,984
Other comprehensive income		(19,915)	(24,995)
Specific reserve		2,136	1,260
Surplus reserves		209,415	209,415
General risk reserve		1,460	1,460
Retained earnings		162,130	129,985
Total equity attributable to parent company		**776,215**	**740,482**
Minority interests		346,846	338,084
Total equity		**1,123,061**	**1,078,566**
Total Liabilities and equity		**2,295,606**	**2,256,698**

Dai Houliang	**Zhao Dong**	**Jiang Yongfu**
General Manager	**Chief Financial Officer**	**Director of Finance Department**

The notes on pages 6 to 24 form part of these financial statements.

Consolidated Income Statement

		Six months ended 30 June	
Items	**Note**	**2018 RMB million (Unaudited)**	**2017 RMB million (Unaudited)**
1. Operating revenue		**1,327,257**	**1,186,500**
2. Total operating costs		**1,264,544**	**1,148,784**
Incl.: Operating costs		1,070,501	957,509
Taxes and surcharges		121,169	118,278
Selling and distribution expenses		28,397	26,653
General and administrative expenses		34,155	30,633
Research and development expenses		4,838	3,250
Exploration costs		4,362	4,542
Financial expenses	V.8	1,157	3,221
Assets impairment loss		137	4,698
Expected credit loss		(172)	
Add: Other income		2,608	1,655
Investment income (loss)		6,697	5,399
Gain from changes of fair value (loss)		(658)	369
Gains from assets disposal (loss)		366	271
3. Operating profit (loss)		**71,726**	**45,410**
Add: Non-operating income		1,513	740
Less: Non-operating expenses		1,403	1,359
4. Profit before taxation		**71,836**	**44,791**
Less: Income tax expense		16,238	10,396
5. Net profit		**55,598**	**34,395**
Less: Profit/loss attributable to minority interests		22,662	15,279
6. Net profit attributable to parent company		**32,936**	**19,116**

Dai Houliang	**Zhao Dong**	**Jiang Yongfu**
General Manager	**Chief Financial Officer**	**Director of Finance Department**

The notes on pages 6 to 24 form part of these financial statements.

Consolidated Cash Flow Statement

Items	Notes	Six months ended 30 June 2018 RMB million (Unaudited)	2017 RMB million (Unaudited)
1. Cash flows from operating activities			
Cash received from sales and services		1,430,242	1,276,444
Refund of tax and surcharges		1,084	1,097
Other cash received relating to operating activities		38,323	55,121
Subtotal of cash inflows from operating activities		**1,469,649**	**1,332,662**
Cash paid for goods and services		1,088,806	967,939
Cash paid to and for employees		46,050	42,618
Payments of taxes and surcharges		211,972	198,669
Other cash paid relating to operating activities		51,785	57,871
Subtotal of cash outflows from operating activities		**1,398,613**	**1,267,097**
Net cash flows from operating activities		**71,036**	**65,565**
2. Cash flows from investing activities			
Cash received from disposal of investments		108,159	71,416
Cash received from investment income		3,776	4,681
Net cash received from disposal fixed assets, intangible assets and other long-term assets		7,710	437
Net cash received from disposal of subsidiaries and other operating units		9	1
Other cash received relating to investing activities		9,224	4,488
Subtotal of cash inflows from investing activities		**128,878**	**81,023**
Cash paid for purchasing fixed assets, intangible assets and other long-term assets		37,839	31,452
Cash paid for acquisition of investments		66,887	81,513
Net cash paid to acquire subsidiaries and other operating units		3,188	17
Other cash paid relating to investing activities		30	13,304
Subtotal of cash outflows from investing activities		**107,944**	**126,286**
Net cash flows from investing activities		**20,934**	**(45,263)**

Consolidated Cash Flow Statement (Continued)

Items	Notes	Six months ended 30 June 2018 RMB million (Unaudited)	2017 RMB million (Audited)
3. Cash flows from financing activities			
Cash received from capital contributions		1,278	333
Cash received from borrowings		468,333	474,309
Other cash received relating to financing activities		264	72
Subtotal of cash inflows from financing activities		**469,875**	**474,714**
Cash repayments of borrowings		476,601	480,046
Cash paid for dividends, profits distribution or interest		27,270	8,290
Other cash paid relating to financing activities		(88)	242
Subtotal of cash outflows from financing activities		**503,783**	**488,578**
Net cash flows from financing activities		**(33,908)**	**(13,864)**
4. Effect of foreign exchange rate changes on cash		**629**	**(681)**
5. Net increase in cash and cash equivalents		**58,691**	**5,757**
Add: Cash and cash equivalents at the beginning of the period		169,228	164,825
6. Cash and cash equivalents at the end of the period		**227,919**	**170,582**

Dai Houliang	**Zhao Dong**	**Jiang Yongfu**
General Manager	**Chief Financial Officer**	**Director of Finance Department**

The notes on pages 6 to 24 form part of these financial statements.

A. Company's profile

China Petrochemical Corporation ("the Company") is a stated-owned company, established on 27 July 1998. The Company is registered in Beijing with a registered capital of RMB 274.87 billion, and its headquarter is located in Beijing. The person in charge of the Company is Dai Houliang.

The Company is one of the largest integrated energy and chemical companies with upstream, midstream and downstream operation in China, established on the basis of former China Petrochemical Corporation according to the Circular on Establishment Program of Sinopec Group and Announcement on the articles of association of Sinopec Group (the State Economic and Trade Commission [1998] No.458). The former China Petrochemical Corporation was established in 1983 as the economic entity with the qualification of a legal person under direct control by the State Council, and responsible for designing and planning the national petrochemical production construction and import and export business. In July, 1998, China carried out significant reform and restructured the petroleum and petrochemical industry, Sinopec Group completely merged China Eastern United Petrochemical (Group) Company Limited and finished transfer with China National Petroleum Corporation and hand-over with provincial/ municipal as well as specifically designated municipal petroleum companies, hence, it became a state-owned company, functioning as a state-authorized investment organization in which the state holds the full control.

The Company and its subsidiaries' ("the Group", "Sinopec Group") key business activities include: exploration and development of petroleum and natural gas, petroleum refining, petrochemical, petroleum products wholesale and retail, exploration and designing, construction and installation of petroleum and petrochemical projects.

Sinopec Group ranked the third in Fortune Global 500 in 2018.

Sinopec Group has 38 wholly-owned or holding subsidiaries, including China Petroleum & Chemical Company (Sinopec Corp.) listed in Hong Kong, New York, London and Shanghai, Sinopec Oilfield Service Corporation (SSC) listed in Hong Kong and Shanghai, Sinopec Engineering (Group) Co., Ltd. (SEG) listed in Hong Kong, Sinopec Oilfield Equipment Corporation (SOFE) listed in Shenzhen, as well as 34 unlisted companies.

B. Basis of preparation

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises and corresponding application guidance, interpretations and other related provisions issued by the Ministry of Finance (collectively referred as "Accounting Standards for Business Enterprises ").

The financial statements of Sinopec Group have been prepared on the going concern basis.

C. Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared in compliance with the Accounting Standards for Business Enterprises to truly and completely present the consolidated financial position as at 30 June 2018, and the consolidated operating results and cash flows for the year ended 30 June 2018.

D. Significant accounting policies and accounting estimates

1. **Accounting period**

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

2. **Functional currency**

The Group's functional currency is RMB. The subsidiaries of the Company determine their functional currency according to the main economic environment in where they operate. If the functional currencies of some subsidiaries are not RMB, they should translate them into RMB when compiling their financial statements.

3. Accounting basis and valuation principle

The Company adopts the accrual basis of accounting. Except for certain financial instruments, the financial statements are conventionally prepared under the historical cost. In the case of impairment of assets, a provision for impairment is made in accordance with the relevant regulations.

4. Foreign currency translation

(1) Transactions in foreign currency

Transactions denominated in foreign currencies are translated into functional currency using the spot exchange rates at the dates of the transactions or at the date of the last month-end day. Foreign exchange transactions or others shall be translated into functional currency at the exchange rate undertaken by the deal, which is bid price or ask price the bank offered.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the balance sheet date. The resulting exchange differences between the spot exchange rate on balance sheet date and the spot exchange rate on initial recognition or on the previous balance sheet date are recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to RMB using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss. Foreign currency translation difference of specific borrowings accounts which is directly attributable to the construction or production of assets eligible for capitalization is capitalized according to regulations and included in the cost of related assets.

(2)Translation of financial statements in foreign currency

When financial statements are translated from the foreign currency into RMB, all asset and liability accounts should be translated into RMB using the spot exchange rates at the balance sheet date. All equity accounts, except for the "retained earnings" account, should be translated into RMB using the spot exchange rates when the transactions take place. All accounts in the income statement and those items relating to profit distribution should be translated into RMB using the spot exchange rates prevailing at the transaction date. Exchange differences arising from the translation of financial statements are separately presented as "Foreign currency translation differences" in the cash flow statements. These differences should also be reflected by the "Other comprehensive income" in balance sheets.

5. Recognition basis for cash and cash equivalents

Cash and cash equivalents include cash, bank deposit, other monetary assets and short-term non-equity investment. Short-term non-equity investment that can be recognized as cash equivalents shall conform to the following conditions: short-term (commonly refers to those expiring within 3 months from purchase date), highly liquidity, easily convertible to known amounts of cash, and insignificant risk volatility of fair value.

6. Financial instruments

Financial instruments, refer to the contracts that form one party's financial assets and form the financial liabilities or equity instruments of the other party. The Group recognizes a financial asset or a financial liability when the Group enters into and becomes a party to the underlining contract of the financial instrument.

(a) Classification and measurement of financial assets

The Group classifies financial assets into different categories depending on the business model for managing the financial assets and the contractual terms of cash flows of the financial assets: (1) financial assets measured at amortized cost, (2) financial assets measured at fair value through other comprehensive income, (3) financial assets measured at fair value through profit or loss.

Financial assets are initially recognized at fair value. For financial assets measured at fair value through profit or loss, the relevant transaction costs are recognized in profit or loss. The transaction costs for other financial assets are included in the initially recognized amount. Accounts receivable or bills receivable arising from sales of goods or rendering services, without significant financing component, are initially recognized based on the transaction price expected to be entitled by the Group.

—Debt instruments

① Those measured at amortized costs: the assets held for receiving contractual cash flows, generated exclusively from the principals and interests, are classified as "financial assets measured at amortized costs. The Group applies effective interest method to account these assets as their subsequent treatment under the basis of amortized costs. The gains and losses from derecognition, impairment losses and amortization should be accounted for current profits and losses.

② Those measured at fair value through other comprehensive income: the assets held for receiving contractual cash flows and sales, besides the cash flows are the payments for interest and principals only, are classified as financial assets measured at fair value through other comprehensive income. The changes to financial assets rather than those caused by recognized impairment losses, interest income and exchange translation differences would be regarded as other comprehensive income directly. If the financial assets are derecognized, their correspondingly accumulated gains or losses accounted for other comprehensive income should be transferred into current profits and losses.

③ Those measured at fair value through profit or loss: if financial assets cannot be classified as the two kind of financial assets mentioned above, they should be recognized as financial assets measured at fair value through profit or loss. Gains and losses from this kind of assets, not belonging to debt investment treated by hedge accounting, should be accounted for current profits and losses.

The Group presents debt instruments due within 1 year since the balance sheet date as "Non-current assets due within one-year". Those with less than 1 year to mature since when they are acquired are displayed as "Other current assets" in balance sheet.

—Equity instruments

Equity instruments that the Group has no power to control, jointly control or exercise significant influence over, are measured at fair value through profit or loss and presented in financial assets held for trading. Those expected to be held more than one year from the balance sheet date are presented in other non-current financial assets.

In addition, the Group designates some equity instruments that are not held for trading as financial assets at fair value through other comprehensive income, and presented in other equity instrument investments. The relevant dividends of these financial assets are recognized in profit or loss. When derecognized, the cumulative gain or loss previously recognized in other comprehensive income transfer to retained earnings.

(b) Classification and measurement of financial liabilities

The Group, at initial recognition, classifies financial liabilities as either financial liabilities subsequently measured at amortized cost or financial liabilities at fair value through profit or loss.

The Group recognizes the gains and losses from the financial liabilities measured at amortized costs besides not belonging to any hedge relationships as profits and losses in corresponding period when these liabilities are derecognized. For financial liabilities at fair value through profit or loss, gains and losses generated from fair value changes would be accounted for current profits and losses, except for those relating to hedge accounting.

The Group presents the financial liabilities with less than 1-year maturity as current liabilities. Those with more than 1-year maturity but to mature in 1 year are displayed as non-current liabilities due within one year. Other financial liabilities are classified as non-current liabilities.

(c) Impairment

The Group recognizes a loss allowance for expected credit losses on a financial asset that is measured at amortized cost.

The Group measures and recognizes expected credit losses, considering reasonable and supportable information about the relevant past events, current conditions and forecasts of future economic conditions.

For financial instruments that have low credit risk at the balance sheet date, except for receivables related to revenue, the Group assumes that there is no significant increase in credit risk since the initial recognition and measures the loss allowance at an amount equal to 12-month expected credit losses. If there has been a significant increase in credit risk or credit impairment has occurred since the initial recognition of a financial instrument, the Group recognizes a loss allowance at an amount equal to lifetime expected credit losses.

For receivables related to revenue, the Group measures loss allowance at an amount equal to lifetime expected credit losses.

The Group recognizes loss allowance accrued or written back in profit or loss.

(d) Fair value of financial instruments

The methods for determining fair value of financial asset and financial liability are displayed in IV.7

(e) Derecognition of financial instruments

The Group derecognizes a financial asset when a) the contractual right to receive cash flows from the financial asset expires; b) the Group transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset; c) the financial assets have been transferred and the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but the Group has not retained control.

On de-recognition of other equity instrument investments, the difference between the carrying amounts and the sum of the consideration received and any cumulative gain or loss previously recognized in other comprehensive income, is recognized in retained earnings. While on de-recognition of other financial assets, this difference is recognized in profit or loss.

Where the present obligations of financial liabilities are completely or partially discharged, the Group derecognizes these financial liabilities or discharged parts of obligations. The differences between the carrying amounts and the consideration received are recognized in profit or loss.

7. Fair value measurement

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group measures the relevant assets or liabilities at fair value supposing the orderly transaction of asset selling or liability transferring incurring in a principal market of relevant assets or liabilities. In the absence of a principal market for the asset or liability, the Group assumes that the transaction take place at the most advantageous market of relevant asset or liability. A principal market (or the most advantageous market) is the transaction market that the Group can enter into at measurement date. The Group implements the hypothesis used by the market participants to realize the maximum economic benefit in assets or liabilities pricing.

If there is an active market for the financial assets or financial liabilities, the Group uses the quotation on the active market as its fair value. For those in the absence of active market, the Group uses valuation technique to recognize its fair value.

For non-financial assets measured at fair value, the Group should consider the capacity of the market participants to put the assets into optimal use thus generating the economic benefit, or the capacity to sell assets to other market participants who can put the assets into optimal use and generate economic benefit.

The Group implements the valuation technique suitable for the current condition and supported by enough available data and other information , gives priority in use of relevant observable inputs, only the observable inputs cannot be obtained or impracticable before using unobservable inputs.

For the assets and liabilities measured at fair value or disclosure at financial statements, Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement: Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: inputs are unobservable inputs for the asset or liability.

At each balance sheet date, the Group reviews the assets and liabilities recognized to be measured at fair value on the financial statements to make sure whether conversion occurs between fair value hierarchies.

8. Inventories

(1)Classification of inventories

The Group classifies the inventory as raw material, turnover materials, goods in process, contract performance costs, finished goods, materials in transit, etc.

(2)Measurement method of cost of inventories

Inventories were recorded at actual cost when acquired. Raw materials, goods in process and finished goods are issued using a weighted average method or plan cost. The difference between the planned cost and the actual cost is accounted for separately through the cost variance account. The month ends and the carry-over is completed. The cost difference between the use and delivery of inventories shall be adjusted to the actual cost; and for the reserve crude oil, the sales shall be converted to the replacement purchase cost to carry forward the cost of sales. If the sales of crude oil through serial replacement do not complete the purchase on the balance sheet date, the sale proceeds will be carried forward based on the amount of sales revenue. After the replenishment is completed, the difference will be adjusted based on the actual purchase cost. For the inventory that cannot be replaced, the inventory purchased and manufactured specifically for a specific project, and the cost of providing labor services, the cost of issuing inventory is determined by the individual valuation method. Low-value consumables shall be amortized with a one-off amortization method when they are used. Other turnover materials are generally subject to a one-off amortization method. Turnover materials with a relatively large value and a long lifespan are amortized over the benefit period.

(3)Method for provision for obsolete inventories

Any excess of the cost over the net realizable value of inventories is recognized as a provision for obsolete inventories, and is recognized in profit or loss. The Group usually recognizes provision for decline in value of inventories by a single inventory item, but for reserve crude oil. If the factors caused the value of inventory previously written-down have disappeared, the provision for decline in value of inventories previously made is reversed.

(4)Measurement of net realizable value

Net realizable 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 and relevant taxes. The net realizable value is measured based on the verified evidences and considerations for the purpose of holding inventories and the effect of post balance sheet events.

9. Long-term equity investments

The Group's long-term equity investments include those that the Group is able to exercise controls and significant influence over the investees and also the investments to joint ventures. Joint ventures are the investees over which the Company is able to exercise joint control together with other ventures.

The Group's long-term equity investments are measured at the cost of investments on acquisition. The cost of investments includes the assets paid for the investments, liabilities incurred or assumed and the fair value of issuing equity securities, as well as directly associated costs. While the cost of the long-term investment acquired from the business combination under common control is recognized as the carrying amount of combined party's equity recorded in the ultimate controlling party's consolidated financial statements at the combination date.

Where the Group is able to exercise control over the investee, the long-term equity investment is accounted for using the cost method; where the Group has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method.

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price shall be included in the current profits and losses as investment income. If any change other than the net profits and losses of the invested entity occurs and is included in the owner's equity, the portion previously included in the owner's equity shall, when disposing of a long-term equity investment measured by employing the equity method, be transferred to the current profits and losses according to a certain proportion.

The impairment assessment and provision accrual on investments in subsidiaries, associates and joint ventures entities are stated in Note (see Note IV.12).

10. Fixed assets

Fixed assets refer to tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and have a useful life of more than one year. An item of fixed asset should be recognized if, and only if it is probable that future economic benefits associated with the asset will flow into the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at actual costs of acquisition.

The Group classifies the fixed assets and recognizes the expected useful lives, estimated net residual values rates and the depreciation method of the fixed assets according to China Petrochemical Enterprise

Standard Q/SH0417-2011 "Classification of fixed assets, code and confirmation rules of single fixed assets"

The Company uses the straight line method for depreciation. Without considering impairment provision, the Company's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Categories	Estimated useful lives	Residual percentage %	Annual depreciation rates %
Plant and buildings	12-40	3	2.43-8.08
General equipment	4-20	3	4.85-24.25
Special equipment for oil and gas	8-18	3	5.39-12.13
Special equipment for petroleum and chemical industry	10-20	3	4.85-9.70
others	4-30	0-3	3.23-25.00

Subsequent expenditure of the fixed assets includes the renovation spending and the cost of repairs in the using progress. The renovation spending should be recognized in the carrying amount of the item if the recognition criteria are satisfied and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets not satisfying the recognition criteria of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note IV.12).

11. Oil and gas properties

The oil and gas properties of the Group include drilling activities and other relevant activities, the rights and interests of proved and unproved mining areas. An item of oil and gas properties should be recognized and be measured initially according to the actual cost occurred if:

A. it is probable that future economic benefits associated with the asset will flow to the Group; and

B. the cost of the asset can be measured reliably.

The companies of oil and gas exploration affiliated the Group compute the depletion of oil and gas properties by adopting the output method.

For the Group' s obligation to do the discarded dispose for any mining area, if this obligation satisfies the conditions for the recognition of the expected liabilities, it shall increase the corresponding book value of oil and gas properties and recognize this obligation as an expected liability. The disposal costs of oil and gas properties are amortized by instalment according to the depletion policy of the related properties. The differences between the present value and the estimated future dismantlement are recorded in the financial expenses of the current period and recognized the expected liabilities over their estimated useful lives.

The disposal costs of the oil and gas properties without extraction of mine disposal fees are recorded in the profits and losses of the current period at the time of incurrence.

Oil and gas properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note IV.12)

12. Impairment of assets

The impairment of long-term equity investments in subsidiaries, associates and joint ventures, investment properties measured using a cost model, fixed assets, oil and gas properties, construction in progress, intangible assets, goodwill and other non-financial long-term assets is determined as follows:

At each balance sheet date, the Group determines whether there is any indication of impairment. If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill, intangible assets with indefinite useful lives and intangible assets not ready for use at each year-end, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its present value of expected future cash flows. The recoverable amount is estimated for each individual asset. If it is not possible to estimate the recoverable amount of each individual asset, the Group determines the recoverable amount for the asset group to which the asset belongs. An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

An impairment loss is recognized in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognized accordingly.

For goodwill impairment test, the carrying amount of goodwill arising from a business combination is allocated reasonably to the relevant asset group since the acquisition date. If the carrying amount of goodwill is unable to be allocated to asset group, the carrying amount of goodwill will be allocated to asset portfolio. Asset group or portfolio of asset group is asset group or portfolio of asset group which can be benefit from synergies of a business combination and is not greater than the reportable segment of the Group.

In impairment testing, if impairment indication exists in asset group or portfolio of asset group containing allocated goodwill, impairment test is first conducted for asset group or portfolio of asset group that does not contain goodwill, and corresponding recoverable amount is estimated and any impairment loss is recognized. Then impairment test is conducted for asset group or portfolio of asset group containing goodwill by comparing its carrying amount and its recoverable amount. If the recoverable amount is less than the carrying amount, impairment loss of goodwill is recognized.

Once an impairment loss is recognized, it is not reversed in a subsequent period.

13. Revenue recognition

Revenue is recognized according to the expected consideration amount, when a customer obtains control over the relevant goods or services.

Revenue from the rendering of services is recognized within a period of time by reference to the stage of the completion of the transaction based on the proportion of the incurred costs to the estimated total costs. Goods produced by the Group are sold directly to customers or shipped to the location specified in contracts. Revenue from sales of goods is recognized upon the confirmation by both parties.

14. Government grants

A government grant is recognised if the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value. If fair value cannot be reliably determined, it is measured at a nominal amount of RMB 1.

A government grant related to an asset is recognised as deferred income and amortised to profit or loss equally over the useful life of the related asset. A grant that compensates the Group for expenses or losses already incurred is recognised in profit or loss or offset against related expenses directly. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in profit or loss or offset against related expenses in the periods in which the expenses or losses are recognised.

A grant related to ordinary activities is recognized as other income. A grant not related to ordinary activities is recognized as non-operating income.

If the government directly appropriates the interest subsidy to the lending bank, the Group recognized the loan as the amount received, and interest expense is calculated using the loan principal and policy-related preferential interest rate. If the government directly appropriates the interest subsidy to the Group, the interest subsidy is offset against interest expense.

When a recognised government grant is reversed, if there is balance of relevant deferred income, it is offset against the carrying amount of relevant deferred income. Any excess of the reversal to the carrying amount of deferred income is recognised in profit or loss for the current period. For other circumstances, reversal is directly recognized in profit or loss for the current period.

15. Safety fund reserve

According to the circular of "Administrative measurement on the withdraw and allocation of enterprise's manufacturing-safety fee" issued by the finance ministry accompanying with Sate Administration of Work safety (Cai Qi [2012] No. 16), exploration activities of crude oil and natural gas should be charged in the light of raw mineral According to the circular of "Management measures for the extraction and use of enterprise safety cost "(Accounting [2012] No. 16) issued by the Finance Ministry accompanying with State Administration of Work Safety, exploration activities of crude oil and natural gas shall be charged in the light of raw mineral output, which requires 17 Yuan per ton for crude oil and 5 Yuan per 1,000 cubic metres for natural gas. 2.5% of oil engineering (excludes geophysical exploration and ground construction) revenue would be extracted monthly for safety cost, while 1.5% of construction and installation costs for petrochemical engineering business are charged to safety cost. Among refinery and petrochemical business, the extraction is based on real revenue from items listed on "Name List of Hazardous Chemicals "(GB12268). Regressive rate ranged from 0.05%-2% of actual operating income of the previous year is applied to machine-manufacturing business.

16. Changes in accounting policies and estimates and pre-error correction and other matters necessary to adjust

1. Changes in accounting policies

   (1) The Ministry of Finance (the "MOF") issued Cai Kuai [2018] No. 15 "Announcement of the revision of general enterprise financial statements format for 2018". The Group has adopted the above guidelines to prepare financial statements for the six-month period ended 30 June 2018. The comparative financial statements of 2017 have been adjusted. The impact to the Group's financial statements is presented as below:

Consolidated balance sheet

Contents and reasons of the changes	Subject	Amount (RMB million) 31 December 2017
The Group combines and presents bills receivable and accounts receivable	Bills receivable and accounts receivable	94,143
	Accounts receivable	(73,957)
	Bills receivable	(20,186)
The Group presents interest receivable, dividends receivables and other receivables together	Other receivables	3,852
	Other current assets	(3,852)
The Group merges fixed assets pending for disposal into fixed assets	Fixed assets	331
	Other non-current assets	(331)
The Group merges construction materials into construction in progress	Construction in progress	107
	Other non-current assets	(107)
The Group combines and presents bills payable and accounts payable	Bills payable and accounts payable	258,936
	Bills payable	(11,906)
	Accounts payable	(247,030)
The Group merges interests payable and dividends payable into other payables	Other payables	9,680
	Other current liabilities	(9,680)
The Group merges special payable into long-term payables	Long-term payable	1,762
	Other non-current liabilities	(1,762)

Consolidated income statement

Contents and reasons of the changes	Subject	Amount (RMB million) Six-month period ended 30 June 2017
The research and development expenses was separately presented from general and administrative expenses	Research and development expenses	3,250
	General and administrative expenses	(3,250)

(2) MOF issued revised "No.14 Accounting Standard for Business Enterprises - Revenue" ("New Revenue Standard") and the New Revenue Standard was effective on 1 January 2018. The Group has adopted the above standard to prepare financial statements of the six-month period ended 30 June 2018, comparative figures not been restated.

The New Revenue Standard has no significant impact on the shareholder's equity presented in the consolidated balance sheet. The Group's initial implementation of the standard affects the other related items in the financial statements as follows:

Contents and reasons of the changes	Subject	Amount(RMB million) 1 January 2018
The Group reclassifies inventories recognized previously as contract asset	Contract assets	14,467
	Inventories	(14,467)
Advances from customers and deferred income were reclassified as contract liabilities	Contract liabilities	149,629
	Advances from customers	(149,295)
	Deferred income	(334)

(3) MOF issued revised "No.22 Accounting Standards for Business Enterprises - Financial instruments: recognition and measurement", revised "No.23 Accounting Standards for Business Enterprises - Transfer of financial assets", revised "No.24 Accounting Standards for Business Enterprises - Hedging" and revised "No.37 Accounting Standards for Business Enterprises - Presentation of financial instruments" ("New Financial Instruments Standards"), New Financial Instruments Standards is effective after 1 January 2018. The Group has adopted the above guideline to prepare financial statements of the six-month period ended 30 June 2018, comparative figures have not been restated.

New Financial Instruments Standards have no significant impact on the shareholder's equity. The impact to the Group's financial statements is presented as below:

(a) At 1 January 2018, the comparatives of classification and measurement between New Financial Instruments Standards and the previous as below:

Previous Financial Instruments Standards		**New Financial Instruments Standards**		**Amount affected RMB million**
Subject	**Measurement RMB million**	**Subject**	**Measurement RMB million**	
Cash	195,941	Cash	169,209	(26,732)
Financial assets measured at fair value through profit or loss	51,196	Financial assets held for trading	97,550	46,354
Other receivables	29,079	Other receivables	28,961	(118)
Non-current assets due within one-year	79,633	Non-current assets due within one-year	79,665	32
Other current asset	69,179	Other current asset	54,347	(14,832)
Available-for-sale financial assets	18,667			(18,667)
		Other equity instrument investments	8,918	8,918
Other non-current asset	210,023	Other non-current asset	214,915	4,892
Estimated liabilities	40,281	Estimated liabilities	40,309	28
Other comprehensive income	(24,995)	Other comprehensive income	(25,320)	(325)
Retained earnings	129,985	Retained earnings	130,129	144

(b) At 1 January 2018, Impairment of financial assets measured at amortized cost is recalculated in accordance with the requirements of the New Financial Instruments Standards. There is no significant difference compared to the previous standards.

2. There were no changes in accounting estimate and correction of errors in this year.

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Cash on hand	72	64
Cash at bank	224,742	193,509
Other monetary fund	3,085	2,368
Total	**227,899**	**195,941**

2. Bills receivable and accounts receivable

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Bills receivable	12,121	20,186
Accounts receivable	87,724	79,224
Subtotal	**99,845**	**99,410**
Less: Impairment losses for bad and doubtful debts	5,062	5,267
Total	**94,783**	**94,143**

(1) The bills receivable mainly comprise bank acceptance bills paid for the goods or services the Group provided.
(2) There are no such bills receivable of which issuer failed to make the commitment.
(3) Up to 30 June 2018, the Group believes that there is no significant credit risk among bank acceptance bills it held, and the Group would not suffer any significant losses caused by unilateral breach.

3. Inventory

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Finished goods	154,478	169,409
Raw material	65,684	38,439
Materials in transit	50,513	39,810
Goods in process	18,108	17,549
Inventory arising from construction contract		14,726
Unfinished Labor project cost		151
Contract performance costs	1,040	
Turnover materials	303	384
Goods in transit	49	43
Other	415	342

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Total	**290,590**	**280,853**
Less: Inventory impairment provisions	17,297	17,603
Book value	**273,293**	**263,250**

4. Short-term loans

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Credit loans	135,746	145,436
Mortgage loans	60	60
Guarantee loans	1	1
Total	**135,807**	**145,497**

5. Non-current liabilities due within one year

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Long-term loans due within 1 year:	28,510	41,746
Incl.: Credit loans	28,510	41,746
Bonds payable due within 1 year	35,827	34,053
Other long-term liabilities due within 1 year	1,368	1,039
Total	**65,705**	**76,838**

As at 30 June 2018 and 31 December 2017, the Group does not have any significant long-term loans.
As at 30 June 2018, bonds payable due within 1 year are displayed below:

Bonds	Issuer	Issue date	Maturity	Principal value (million)
RMB 16,000,000,000 3.30% Due 2018	Sinopec Corp.	2015/11/18	3 years	RMB 16,000
USD 750,000,000 2.5% Senior Notes Due 2018	Sinopec Group Overseas Development Limited ("Overseas Development")	2013/10/17	5 years	USD 750
USD 750,000,000 2.75% Senior Notes Due 2019	Overseas Development	2014/4/10	5 years	USD 750
USD 500,000,000 libor+92bps Senior Notes Due 2019	Overseas Development	2014/4/10	5 years	USD 500
USD 1,000,000,000 2.125% Senior Notes Due 2019	Overseas Development	2016/4/25	3 years	USD 1,000
Total	—	—	—	—

Continued:

Name	Issuing value (RMB million)	Coupon rate	As at 30 June 2018 (RMB million) (unaudited)
RMB 16,000,000,000 3.30% Due 2018	16,000	3.30%	16,000
USD 750,000,000 2.5% Senior Notes Due 2018	4,566	2.50%	4,959
USD 750,000,000 2.75% Senior Notes Due 2019	4,588	2.75%	4,958
USD 500,000,000 libor+92bps Senior Notes Due 2019	3,065	libor+92bps	3,307
USD 1,000,000,000 2.125% Senior Notes Due 2019	6,459	2.13%	6,603
Total	**34,678**	—	**35,827**

6. Long-term loans

Item	As at 30 June 2018 RMB million (unaudited)	As at 31 December 2017 RMB million (audited)
Credit loans	58,183	37,662
Guarantee loans	15	15
Total	**58,198**	**37,677**

7. Bonds payable

Name	Issuer	Issuing date	Maturity	Par Value (million)
RMB 9,000,000,000 4.05% Due 2020	Sinopec Corp.	2010/5/21	10 years	RMB 9,000
RMB 7,000,000,000 4.90% Due 2022	Sinopec Corp.	2012/6/5	10 years	RMB 7,000
USD 1,250,000,000 3.13% Due 2023	Sinopec Corp.	2013/4/24	10 years	USD 1,250
USD 500,000,000 4.25% Due 2043	Sinopec Corp.	2013/4/24	30 years	USD 500
RMB 4,000,000,000 3.70% Due 2020	Sinopec Corp.	2015/11/18	5 years	RMB 4,000
USD 1,000,000,000 3.90% Senior Notes Due 2022	Overseas Development	2012/5/18	10 years	USD 1,000
USD 1,000,000,000 4.875% Senior Notes Due 2042	Overseas Development	2012/5/18	30 years	USD 1,000
USD 500,000,000 3.90% Senior Notes Due 2022	Overseas Development	2012/8/9	10 years	USD 500
USD 1,500,000,000 4.375% Senior Notes Due 2023	Overseas Development	2013/10/17	10 years	USD 1,500
USD 500,000,000 5.375% Senior Notes Due 2043	Overseas Development	2013/10/17	30 years	USD 500
EUR 550,000,000 2.625% Senior Notes Due 2020	Overseas Development	2013/10/17	7 years	EUR 550
USD 750,000,000 2.75% Senior Notes Due 2019	Overseas Development	2014/4/10	5 years	USD 750
USD 1,000,000,000 4.375% Senior Notes Due 2024	Overseas Development	2014/4/10	10 years	USD 1,000
USD 500,000,000 libor+92bps Senior Notes Due 2019	Overseas Development	2014/4/10	5 years	USD 500

Name	Issuer	Issuing date	Maturity	Par Value (million)
USD 400,000,000 4.375% Senior Notes Due 2024	Overseas Development	2014/6/9	10 years	USD 400
USD 2,500,000,000 2.50% Senior Notes Due 2020	Overseas Development	2015/4/22	5 years	USD 2,500
EUR 650,000,000 1.00% Senior Notes Due 2022	Overseas Development	2015/4/22	7 years	EUR 650
USD 1,500,000,000 3.25% Senior Notes Due 2025	Overseas Development	2015/4/22	10 years	USD 1,500
USD 800,000,000 4.10% Senior Notes Due 2045	Overseas Development	2015/4/22	30 years	USD 800
USD 1,000,000,000 2.125% Senior Notes Due 2019	Overseas Development	2016/4/25	3 years	USD 1,000
USD 900,000,000 2.75% Senior Notes Due 2021	Overseas Development	2016/4/25	5 years	USD 900
USD 700,000,000 3.5% Senior Notes Due 2026	Overseas Development	2016/4/25	10 years	USD 700
USD 400,000,000 4.25% Senior Notes Due 2046	Overseas Development	2016/4/25	30 years	USD 400
USD 1,100,000,000 1.75% Senior Notes Due 2019	Overseas Development	2016/9/28	3 years	USD 1,100
USD 1,300,000,000 2.00% Senior Notes Due 2021	Overseas Development	2016/9/28	5 years	USD 1,300
USD 600,000,000 2.75% Senior Notes Due 2026	Overseas Development	2016/9/28	10 years	USD 600
USD 1,000,000,000 2.375%Senior Notes Due 2020	Overseas Development	2017/4/5	10 years	USD 1,000
USD 300,000,000 4.25%Senior Notes Due 2047	Overseas Development	2017/4/5	30 years	USD 300
USD 1,000,000,000 3.625%Senior Notes Due 2027	Overseas Development	2017/4/5	3 years	USD 1,000
USD 1,100,000,000 3.00%Senior Notes Due 2022	Overseas Development	2017/4/5	5 years	USD 1,100
USD 700,000,000 2.25%Senior Notes Due 2020	Overseas Development	2017/9/6	3 years	USD 700
USD 1,400,000,000 2.50%Senior Notes Due 2022	Overseas Development	2017/9/6	5 years	USD 1,400
USD 750,000,000 3.25%Senior Notes Due 2027	Overseas Development	2017/9/6	10 years	USD 750
USD 400,000,000 4.00%Senior Notes Due 2047	Overseas Development	2017/9/6	30 years	USD 400
16 Sinopec 01	Sinopec Group	2016/9/23	5 years	RMB 13,000
16 Sinopec 02	Sinopec Group	2016/9/23	7 years	RMB 4,300
16 Sinopec 03	Sinopec Group	2016/9/23	10 years	RMB 800
Total	—	—	—	—

Continued:

Name	Issuing value (RMB million)	Coupon rate	As at 30 June 2018 (RMB million) (unaudited)	As at 31 December 2017 (RMB million) (audited)
RMB 9,000,000,000 4.05% Due 2020	9,000	4.05%	9,000	9,000
RMB 7,000,000,000 4.90% Due 2022	7,000	4.90%	6,530	6,530
USD 1,250,000,000 3.13% Due 2023	7,776	3.13%	8,235	8,129
USD 500,000,000 4.25% Due 2043	3,110	4.25%	3,283	3,242
RMB 4,000,000,000 3.70% Due 2020	4,000	3.70%	4,000	4,000
USD 1,000,000,000 3.90% Senior Notes Due 2022	6,224	3.90%	6,592	6,507
USD 1,000,000,000 4.875% Senior Notes Due 2042	6,222	4.875%	6,563	6,481
USD 500,000,000 3.90% Senior Notes Due 2022	3,386	3.90%	3,407	3,377
USD 1,500,000,000 4.375% Senior Notes Due 2023	9,123	4.375%	9,861	9,733
USD 500,000,000 5.375% Senior Notes Due 2043	3,043	5.375%	3,277	3,236
EUR 550,000,000 2.625% Senior Notes Due 2020	4,532	2.625%	4,193	4,273
USD 750,000,000 2.75% Senior Notes Due 2019	4,588	2.75%		4,894
USD 1,000,000,000 4.375% Senior Notes Due 2024	6,115	4.375%	6,593	6,499
USD 500,000,000 libor+92bps Senior Notes Due 2019	3,065	libor+92bps		3,262
USD 400,000,000 4.375% Senior Notes Due 2024	2,581	4.375%	2,723	2,693
USD 2,500,000,000 2.50% Senior Notes Due 2020	15,232	2.50%	16,493	16,275
EUR 650,000,000 1.00% Senior Notes Due 2022	4,307	1.00%	4,948	5,042
USD 1,500,000,000 3.25% Senior Notes Due 2025	9,088	3.25%	9,830	9,701
USD 800,000,000 4.10% Senior Notes Due 2045	4,895	4.10%	5,276	5,210
USD 1,000,000,000 2.125% Senior Notes Due 2019	6,459	2.125%		6,528
USD 900,000,000 2.75% Senior Notes Due 2021	5,813	2.75%	5,932	5,855
USD 700,000,000 3.5% Senior Notes Due 2026	4,521	3.50%	4,607	4,548
USD 400,000,000 4.25% Senior Notes Due 2046	2,584	4.25%	2,630	2,597
USD 1,100,000,000 1.75% Senior Notes Due 2019	7,360	1.75%	7,258	7,159
USD 1,300,000,000 2.00% Senior Notes Due 2021	8,698	2.00%	8,555	8,442
USD 600,000,000 2.75% Senior Notes Due 2026	4,014	2.75%	3,927	3,876
USD 1,000,000,000 2.375%Senior Notes	6,862	2.375%	6,585	6,502

Name	Issuing value (RMB million)	Coupon rate	As at 30 June 2018 (RMB million) (unaudited)	As at 31 December 2017 (RMB million) (audited)
Due 2020				
USD 300,000,000 4.25%Senior Notes Due 2047	2,059	4.25%	1,975	1,950
USD 1,000,000,000 3.625%Senior Notes Due 2027	6,862	3.625%	6,595	6,507
USD 1,100,000,000 3.00%Senior Notes Due 2022	7,548	3.00%	7,248	7,155
USD 700,000,000 2.25%Senior Notes Due 2020	4,621	2.25%	4,632	4,574
USD 1,400,000,000 2.50%Senior Notes Due 2022	9,241	2.50%	9,263	9,148
USD 750,000,000 3.25%Senior Notes Due 2027	4,951	3.25%	4,962	4,901
USD 400,000,000 4.00%Senior Notes Due 2047	2,640	4.00%	2,647	2,614
16 Sinopec 01	13,000	2.83%	13,000	13,000
16 Sinopec 02	4,300	3.02%	4,300	4,300
16 Sinopec 03	800	3.30%	800	800
Total	**215,622**	——	**205,719**	**218,537**

Up to 30 June 2018, bonds payable due within 1 year have been reclassified into "non-current liabilities due within one year"(See Note V.5).

8. Financial expenses

Categories	Six months ended 30 June	
	2018 RMB million (unaudited)	2017 RMB million (unaudited)
Net interest expenses	889	2,801
Incl.: Interest expenses	4,461	5,253
Interest income	3,572	2,452
Exchange net loss	(335)	(7)
Other expenses	603	427
Incl.: Poundage spending	542	422
Total	**1,157**	**3,221**

9. Segment information

Item	Exploration and Production		Refining	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)
Operating revenue	87,925	74,109	593,327	488,172
Operating costs	91,317	95,205	555,211	458,695
Operating profit(loss)	(1,503)	(20,173)	39,119	28,247

Continued:

Item	Chemicals		Marketing and Distribution	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)
Operating revenue	276,229	225,328	668,325	605,960
Operating costs	266,326	214,442	650,184	589,501
Operating profit (loss)	18,805	15,314	18,843	18,108

Continued:

Item	Oil & Petrochemical Engineering Technical Services		Others	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)
Operating revenue	43,996	35,138	639,519	536,506
Operating costs	43,031	36,750	640,295	530,117
Operating profit (loss)	1,651	(1,268)	907	6,110

Continued:

Item	Elimination of inter-segment		Total	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)	RMB million (unaudited)
Operating revenue	(982,064)	(778,713)	1,327,257	1,186,500
Operating costs	(981,820)	(775,926)	1,264,544	1,148,784
Operating profit (loss)	(6,096)	(928)	71,726	45,410

VI. SUBSEQUENT EVENTS

1. Gratuitous Transfer of State-owned Shares

According to the relevant notice issued by State-owned Assets Supervision and Administration Commission of the State Council, the Company proposed to gratuitously transfer the A shares of

Sinopec Corp. held by it with amounts of 1,241,721,854 A shares to Chengtong Holdings Group Ltd. and 1,241,721,854 A shares to China Reform Holdings Co., Ltd. Upon completion of the Gratuitous Transfer, the number of total shares the Company directly hold is 83,035,984,207, representing 68.58% of the total share capital of the China Petroleum & Chemical Corporation. The Gratuitous Transfer would not cause any change to the controlling shareholder and the ultimate controller of the Company.

2. Proposal to issue exchangeable corporate bond

According to the 26th discretion generated from the second minutes of the Company's board of directors, the Company proposed to issue exchangeable Corporate Bonds in installments with a term not exceeding five years and proceeds not exceeding RMB 50 billion. Subject to the fulfillment of conditions to exchange, the holders of Exchangeable Corporate Bonds will be entitled to exchange their Exchangeable Corporate Bonds into A shares of the China Petroleum & Chemical Corporation within the exchange period of Exchangeable Corporate Bonds. The issuance of Exchangeable Corporate Bonds has been approved by the State-owned Assets Supervision and Administration Commission of the state Council and China Securities Regulatory Commission. The final plan for the issuance of exchangeable corporate bonds will be determined based on market conditions.

3. Restructuring of the enterprise type

In August 2018, the Company has restructured its type from the enterprise owned by the whole people to the company with limited liabilities (solely state-owned enterprise).

4. Establishment of Sinopec Capital

On 10 July 2018 the Company proposes to establish Sinopec Capital Co., Ltd. ("Sinopec Capital") with Sinopec Corp. with a registered capital of RMB 10 billion, of which, the Sinopec Corp. would subscribe capital contribution of RMB 4.9 billion by cash, representing 49% of the registered capital of Sinopec Capital; and the Company would subscribe capital contribution of RMB 5.1 billion by cash, representing 51% of the registered capital. The Company and Sinopec Corp. shall pay all their respective capital contribution to Sinopec Capital no later than 31 December 2020. In this July, the Company and Sinopec Corp. have contributed RMB 2.04 billion and RMB 1.96 billion respectively to Sinopec Capital.

VII. Other significant event

According to the improvement by State-owned Assets Supervision and Administration Commission of the State Council's state-owned assets [2017] No. 1169, the improvement by China Securities Regulatory Commission's license [2018] No. 142, the improvement by China Securities Regulatory Commission's license [2018] No. 130, and the approval of resolutions of the first extraordinary general meeting of shareholders held in 2017, the Group issued 1,526,717,556 A Shares and 3,314,961,482 H Shares by private placement in January 2018 respectively, raised funds of RMB 7.64 billion in total, which enforces the liquidity. After completing this issue, the number of shares is 18,984,340,033, of which 70.18% are directly and indirectly held by the Group.

VIII. FINANCIAL STATEMENTS APPROVAL

The financial statements for the six-month period ended 30 June 2018 had been approved by the board of Sinopec Group.

China Petrochemical Corporation

31 August 2018

ISSUER

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