

CHINA PETROLEUM & CHEMICAL CORP
Form 6-K
March 28, 2019

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

For the month of March 2019

CHINA PETROLEUM & CHEMICAL CORPORATION
22 Chaoyangmen North Street
Chaoyang District, Beijing, 100728
People's Republic of China
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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

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

Yes No

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

82-_____.)

N/A

This Form 6-K consists of:

1. A copy of 2018 annual report filed with the Hong Kong Stock Exchange by China Petroleum & Chemical Corporation (the “Registrant”);
 2. An announcement regarding 2018 annual results of the Registrant, made by the Registrant on March 22, 2019;
 3. A circular and a notice regarding annual general meeting for the year 2018 of the Registrant, each made by the Registrant on March 24, 2019; and
 4. An announcement regarding Proposed Amendments to the Articles of Association of the Registrant, made by the Registrant on March 22, 2019.
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This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, reserve and other estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 22 March 2019 and unless required by regulatory authorities, the Company undertakes no obligation to update these statements.

COMPANY PROFILE

IMPORTANT NOTICE: THE BOARD OF DIRECTORS, THE BOARD OF SUPERVISORS, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF SINOPEC CORP. WARRANT THAT THERE ARE NO FALSE REPRESENTATIONS, MISLEADING STATEMENTS OR MATERIAL OMISSIONS IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. THERE IS NO OCCUPANCY OF NON-OPERATING FUNDS BY THE CONTROLLING SHAREHOLDERS OF SINOPEC CORP. MR. LI YONG, DIRECTOR, DID NOT ATTEND THE 5TH MEETING OF THE SEVENTH SESSION OF THE BOARD DUE TO OFFICIAL DUTIES. MR. LI YONG AUTHORISED MR. LI YUNPENG TO VOTE ON HIS BEHALF IN RESPECT OF THE RESOLUTIONS PROPOSED AT THE MEETING. MR. DAI HOULIANG, CHAIRMAN OF THE BOARD, MR. MA YONGSHENG, PRESIDENT, MR. WANG DEHUA, CHIEF FINANCIAL OFFICER AND HEAD OF THE FINANCIAL DEPARTMENT OF SINOPEC CORP. WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT. THE AUDIT COMMITTEE OF SINOPEC CORP. HAS REVIEWED THE FINANCIAL ANNUAL RESULTS OF SINOPEC CORP. FOR THE YEAR ENDED 31 DECEMBER 2018.

THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 OF THE COMPANY PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (CASs) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) HAVE BEEN AUDITED BY PRICEWATERHOUSECOOPERS ZHONG TIAN LLP AND PRICEWATERHOUSECOOPERS RESPECTIVELY. BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED AUDITOR'S REPORT.

AS APPROVED AT THE 5TH MEETING OF THE SEVENTH SESSION OF THE BOARD OF DIRECTORS OF SINOPEC CORP., THE BOARD PROPOSED A FINAL CASH DIVIDEND OF RMB 0.26 (TAX INCLUSIVE) PER SHARE FOR 2018, COMBINING WITH THE INTERIM CASH DIVIDEND OF RMB 0.16 (TAX INCLUSIVE) PER SHARE, THE TOTAL CASH DIVIDEND FOR 2018 WILL BE RMB 0.42 (TAX INCLUSIVE) PER SHARE. THE DIVIDEND PROPOSAL IS SUBJECT TO THE SHAREHOLDERS' APPROVAL AT THE ANNUAL GENERAL MEETING FOR THE YEAR 2018.

COMPANY PROFILE

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

DEFINITIONS:

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

Sinopec Corp.: China Petroleum & Chemical Corporation;

Company: Sinopec Corp. and its subsidiaries;

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

Sinopec group: China Petrochemical Corporation and its subsidiaries;

NDRC: China National Development and Reform Commission

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

CSRC: China Securities Regulatory Commission.

Hong Kong Stock Exchange: The Stock Exchange of Hong Kong Limited

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

CONVERSION:

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

For overseas production of crude oil: 2018, 1 tonne = 7.21 barrels; 2017, 1 tonne = 7.21 barrels; 2016, 1 tonne = 7.20 barrels;

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

Refinery throughput is converted at 1 tonne = 7.35 barrels.

PRINCIPAL FINANCIAL DATA AND INDICATORS

1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH CASs

(1) Principal financial data

Items	For the year ended 31 December			
	2018 RMB million	2017 RMB million	Change %	2016 RMB million
Operating income	2,891,179	2,360,193	22.5	1,930,911
Operating profit	101,474	86,965	16.7	77,389
Profit before taxation	100,502	86,573	16.1	79,877
Net profit attributable to equity shareholders of the Company	63,089	51,119	23.4	46,416
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	59,630	45,582	30.8	29,713
Net cash flow from operating activities	175,868	190,935	(7.9)	214,543

Items	For the year of 2018				
	First Quarter RMB million	Second Quarter RMB million	Third Quarter RMB million	Fourth Quarter RMB million	Total RMB million
Operating income	621,251	679,001	772,718	818,209	2,891,179
Net profit attributable to equity shareholders of the Company	18,770	22,830	18,380	3,109	63,089
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	17,982	21,809	17,359	2,480	59,630
Net cash flow from operating activities	12,052	59,568	66,299	37,949	175,868

Items	As of 31 December			
	2018 RMB million	2017 RMB million	Change %	2016 RMB million
Total assets	1,592,308	1,595,504	(0.2)	1,498,609
Total liabilities	734,649	741,434	(0.9)	666,084
Total equity attributable to equity shareholders of the Company	718,355	727,244	(1.2)	712,232
Total number of shares (1,000 shares)	121,071,210	121,071,210	—	121,071,210

(2) Principal financial indicators

Items	For the year ended 31 December			
	2018 RMB	2017 RMB	Change %	2016 RMB
Basic earnings per share	0.52	0.42	23.4	0.383
Diluted earnings per share	0.52	0.42	23.4	0.383
Basic earnings per share (excluding extraordinary gains and losses)	0.49	0.37	31.1	0.245
Weighted average return on net assets (%)	8.67	7.14	1.53	6.68
			percentage points	
Weighted average return (excluding extraordinary gains and losses) on net assets (%)	8.20	6.37	1.83	4.33

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			percentage points	
Net cash flow from operating activities per share	1.453	1.577	(7.9)	1.772

Items	As of 31 December			2016 RMB
	2018 RMB	2017 RMB	Change %	
Net assets attributable to equity shareholders of the Company per share	5.933	6.007	(1.2)	5.883
Liabilities to assets ratio (%)	46.14	46.47	(0.33)	44.45
			percentage points	

(3) Extraordinary items and corresponding amounts

Items	For the year ended 31 December		
	(Income)/expenses		
	2018	2017	2016
	RMB	RMB	RMB
	million	million	million
Net loss on disposal of non-current assets	742	1,518	1,489
Donations	180	152	133
Government grants	(7,482)	(4,783)	(3,987)
Gain on holding and disposal of various investments	(1,023)	(148)	(518)
Investment income on loss of control and remeasuring interests in pipeline company	—	—	(20,562)
Gain on remeasurement of interests in Shanghai SECCO	—	(3,941)	—
Other non-operating expenses, net	1,613	690	1,367
Net gain of business combination under common control from beginning of the year to the consolidation date	—	—	(86)
Subtotal	(5,970)	(6,512)	(22,164)
Tax effect	2,312	976	5,578
Total	(3,658)	(5,536)	(16,586)
Attributable to: Equity shareholders of the Company	(3,459)	(5,537)	(16,703)
Minority interests	(199)	1	117

(4) Items measured by fair values

Unit: RMB million

Items	Beginning of the year	End of the year	Changes	Influence
				on the profit of the year
Other equity instruments	1,676	1,450	(226)	515
Derivative financial instruments	(522)	1,584	2,106	191
Cash flow hedging	(1,617)	(7,268)	(5,651)	(9,069)
Financial assets held for trading	51,196	25,732	(25,464)	878
Total	50,733	21,498	(29,235)	(7,485)

(5) Significant changes of items in the financial statements

The table below sets forth reasons for those changes where the fluctuation was more than 30% during the reporting period:

Items	As of 31 December		Increase/(decrease)		Reasons for change
	2018	2017	Amount	Percentage	
	RMB million	RMB million	RMB million	(%)	
Financial assets held for trading	25,732	51,196	(25,464)	(49.7)	Decrease of structured deposit
Non-current liabilities due within one year	17,450	26,681	(9,231)	(34.6)	Bond repayment at maturity

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Financial expenses	(1,001)	1,560	(2,561)	(164.2)	Optimisation of capital operation and increase of interest income
Impairment losses	11,605	21,791	(10,186)	(46.7)	Decrease of impairment losses in current year
Non-operating income	2,070	1,317	753	57.2	Relocation compensation entitled by subsidiaries
Non-operating expenses	3,042	1,709	1,333	78.0	Retirement of underground oil tanks in service station and other assets
Cash received from disposal of investments	56,546	4,729	51,817	1,095.7	Receipt of the structured deposits at maturity
Other cash paid relating to investing activities	87,696	52,304	35,392	67.7	Receipt of time deposits at maturity
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	(103,014)	(70,948)	(32,066)	45.2	Increase of capital expenditure
Cash paid for dividends, profit distribution or interest	(87,483)	(45,763)	(41,720)	91.2	Increase of dividend declared

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

Unit: RMB million

Items	For the year ended 31 December				
	2018	2017	2016	2015	2014
Turnover and other operating revenues	2,891,179	2,360,193	1,930,911	2,020,375	2,827,566
Operating profit	82,264	71,470	77,193	56,822	73,439
Profit before taxation	99,110	86,697	80,151	56,411	65,818
Profit attributable to shareholders of the Company	61,618	51,244	46,672	32,512	46,639
Basic earnings per share (RMB)	0.509	0.423	0.385	0.269	0.399
Diluted earnings per share (RMB)	0.509	0.423	0.385	0.269	0.399
Return on capital employed (%)	9.25	8.26	7.30	5.23	6.06
Return on net assets (%)	8.59	7.06	6.56	4.81	7.84
Net cash generated from operating activities per share (RMB)	1.453	1.577	1.772	1.371	1.267

Unit: RMB million

Items	As of 31 December				
	2018	2017	2016	2015	2014
Non-current assets	1,088,188	1,066,455	1,086,348	1,113,611	1,094,035
Net current liabilities	60,978	50,397	73,282	129,175	242,892
Non-current liabilities	170,675	163,168	181,831	196,275	201,540
Non-controlling interests	139,251	126,770	120,241	111,964	54,348
Total equity attributable to shareholders of the Company	717,284	726,120	710,994	676,197	595,255
Net assets per share (RMB)	5.924	5.997	5.873	5.585	5.033
Adjusted net assets per share (RMB)	5.741	5.868	5.808	5.517	4.969

³ MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER CASs AND IFRS PLEASE REFER TO PAGE 212 OF THE REPORT.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL

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

2 NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS

As of 31 December 2018, the total number of shareholders of Sinopec Corp. was 490,808 including 484,996 holders of domestic A shares and 5,812 holders of overseas H shares. As of 28 February 2019, the total number of shareholders of Sinopec Corp. was 464,131. Sinopec Corp. has complied with requirement for minimum public float under the Hong Kong Listing Rules.

(1) Shareholdings of top ten shareholders

The shareholdings of top ten shareholders as of 31 December 2018 are listed as below:

Name of shareholders

China Petrochemical Corporation

HKSCC Nominees Limited

招商銀行	－博時	企 構調整
匯 產管理	責任	
人壽保險	-分紅-個人分紅-005L-FH00	
農業銀行	－華夏	企 構調整

Note 1: As compared with the number of shares held as of 31 December 2017.

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

China Petrochemical Corporation subscribed for the shares of 博時 企 構調 整交易型開放式指數 基 and 華夏 企 構調整交易型開放式指數 with 600 million A shares of Sinopec Corp. in October 2018.

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

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

(2)

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Information disclosed by the shareholders of H shares in accordance with the Securities and Futures Ordinance (SFO) as of 31 December 2018

Name of shareholders	Status of shareholders	Number of shares interested	% of Sinopec Corp.'s issued voting shares (H Share)
BlackRock, Inc.	Interest of corporation controlled by the substantial shareholder	2,320,644,807(L)	9.10(L)
		1,244,000(S)	0.00(S)
Citigroup Inc.	Person having a security interest in shares	618,800(L)	0.00(L)
	Interest of corporation controlled by the substantial shareholder	152,698,359(L)	0.60(L)
		101,037,238(S)	0.40(S)
	Approved lending agent	1,736,184,160(L)	6.80(L)
JPMorgan Chase & Co.	Beneficial owner	478,700,855(L)	1.88(L)
		157,452,151(S)	0.62(S)
	Investment manager	103,077,862(L)	0.40(L)
	Trustee (exclusive of passive trustee)	1,006,400(L)	0.00(L)
	Approved lending agent	956,876,795(L)	3.75(L)
Schroders Plc.	Investment manager	1,516,334,573(L)	5.94(L)

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

3 ISSUANCE AND LISTING OF SECURITIES

(1) Issuance of securities in reporting period
Not Applicable.

(2) Existing employee shares
Not Applicable.

4 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

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

(1) Controlling shareholder

The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation. Established in July 1998, China Petrochemical Corporation is a state-authorized investment organisation and a state-owned enterprise. The legal representative is Mr. Dai Houliang. Through re-organization in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical businesses into Sinopec Corp. and retained certain petrochemical facilities. It provides well-drilling services, well-logging services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, and utility services including water and power and social services. On 20 August 2018, China Petrochemical Corporation completed the industrial and commercial registration and changed from enterprise owned by the whole people into limited liability company (solely State-owned company) and changed its Chinese name.

Shares of other listed companies directly held by China Petrochemical Corporation

Name of Company	Number of Shares Held	Shareholding Percentage
Sinopec Engineering (Group) Co. Ltd	2,907,856,000	65.67%
Sinopec Oilfield Service Corporation	10,727,896,364	56.51%
Sinopec Oilfield Equipment Corporation	351,351,000	58.74%
China Merchants Energy Shipping Co., Ltd	912,886,426	15.05%

Note: China Petrochemical Corporation holds 2,595,786,987 H shares of Sinopec Oilfield Service Corporation (the "SSC") through Sinopec Century Bright Capital Investment Ltd., a wholly-owned overseas subsidiary of China Petrochemical Corporation, accounting for 13.67% of the total share capital of SSC. Such shareholdings are excluded from the total shares of SSC directly held by China Petrochemical Corporation indicated above.

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

(3) Basic information of the de facto controller

China Petrochemical Corporation is the de facto controller of Sinopec Corp.

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

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

CHAIRMAN'S ADDRESS

Dear Shareholders and Friends:

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

In the face of complicated international situation, daunting challenges brought by the international oil prices fluctuating in a wide range, increasing demand for refined oil and petrochemical products and fierce market competition, adhering to the general principle of making progress while maintaining stability, following the new development philosophy and requirements for high-quality development, we fully exerted the advantages of the integrated value chain, initiated and implemented the phased goals for year 2020 and through year 2050, made great efforts in optimising operation, expanding market, reducing costs, controlling risks, deepening reforms, reinforcing management, and launching the Talent Empowering Enterprise Scheme. We successfully dealt with various risks and challenges, made progress in many aspects and pushed forward the sustainable development in an all-round way.

Over the past year, the Company's profitability increased significantly. In accordance with the International Financial Reporting Standards, our turnover and other operating revenues reached RMB 2.89 trillion. Profit attributable to equity shareholders of the Company grew by 20.2% year on year to RMB 61.6 billion, while the year-end liability-to-asset ratio was 46.21%. Taking into account the Company's profitability, shareholder returns and the future development, the Board of Directors proposed a final dividend of RMB 0.26 per share. Combined with the interim dividend of RMB 0.16 per share, the total dividend for the year is RMB 0.42 per share with a dividend payout ratio of 82.5%.

Over the past year, we constantly improved the Company's development quality by optimising production and operation, actively expanding markets, accelerating structural adjustment, and further promoting scientific and technological innovations, which strengthened our competitiveness. In upstream, we made great efforts to enhance oil and gas exploration and production and achieved domestic crude oil reserves replacement ratio of 131.7%. Meanwhile, we pushed ahead with the construction of natural gas production, supply, storage and marketing system, rapidly increasing natural gas production and sales volume. In refining, we optimised resources allocation, adjusted product slate to further lower diesel-to-gasoline ratio and successfully accomplished the quality upgrading of GB VI standard. In marketing, we gave full play to the advantages of integrated value chain and distribution network, actively responded to the fierce market competition and achieved continuous growth in both total domestic sales volume and retail scale. Moreover, the non-fuel business maintained rapid growth. In chemicals, we made great efforts in adjusting structure and pushing ahead with the integration of production, marketing, research and application. The share of high value-added products of three principal synthetic materials increased continuously and the total sales volume of chemicals soared. Moreover, a number of key projects supporting our long-term development progressed smoothly, which consolidated the development foundation. Several significant breakthroughs were made in the development of core technologies. Both patents applications and patents granted hit record highs. Meanwhile, we made solid progress in the integration of informatisation and industrialisation by actively advancing the development of smart factories, smart oil and gas fields, and smart service stations as well as e-commerce platforms such as Epec, ChemEmail and EasyJoy.

Over the past year, we consistently enhanced our corporate governance. The Company reelected the Board of Directors and the Board of Supervisors, appointed the senior management, and established the Nomination Committee. Independent directors played a better role. The Company improved the corporate governance structure. The regulation for the participation by the Party Organisation in corporate governance was improved, thus facilitating scientific decision-making. We made long-term development strategy and relevant execution plans and drew the road-map of building the company into a world-class enterprise in the new era. The continuing connected transactions for the next three years have been approved by shareholders, which safeguarded the Company's stable operation.

Over the past year, we were determined to fulfilling our social responsibilities. Committed to mitigating climate change and keeping our skies blue, our waters clear, and our land pollution-free, we launched the Green Enterprise Campaign so as to vigorously develop clean energy and improve energy efficiency. We stepped up efforts to control greenhouse gas emissions and formulated a three-year plan for pollution prevention and control. Meanwhile, we reinforced our HSSE management system and the accountability system for safe operation and production, enhanced employees' health and public security management. We achieved fruitful results by reinforcing targeted poverty alleviation, actively participated in various social and charity activities, disaster relief, the work related to the United Nations Global Compact and we were widely acclaimed by society.

Looking ahead, we face both opportunities and challenges. Global politics and economy are facing increasing uncertainties. China will still be in an important period of strategic opportunity for development. Energy production and consumption revolution will be accelerated, domestic oil and gas industrial reform will be further deepened, and demand for energy and petrochemical products will increase. Adhering to the general principle of making progress while maintaining stability and the requirements for high-quality development, we will accelerate the strategic plan of our phased goals for year 2020 through year 2050. Guided by "reform, management, innovation and development", we stick to the operating principles of "specialised development, market-based operation, international layout and overall coordination". By expediting the upgrading of traditional business, strengthening extensive business, fostering new business, and building new green advantages, we will fully exert the specialised and integrated advantages and improved product and service quality with an emphasis on high-quality development. Meanwhile, we will make sure that staff develop together with the Company and the Company achieve harmonious development with society, which will help us achieve sustainable development in an all round way.

In 2019, the Company will adhere to the overall strategy of pursuing progress while maintaining stability, fulfill our due responsibilities and make more efforts in implementing our plans so as to lay solid foundation for sustainable development. Meticulous planning will be made to secure stable operation and to boost operational quality and profitability. Besides, we will strive to implement reform and to improve motivation and incentive mechanisms. Foundation will be consolidated, risk control will be strengthened, and operation and management standards will be further enhanced. In addition, we will strongly promote technological innovations to drive our future growth. We advance structural reform by building a solid resource foundation for sustainable development, strengthening the overall competitiveness of the value chain of refining and marketing businesses, and enhancing our capability in high-end production and value creation of chemical business. With an aim to build the Company into a green enterprise with high quality, we will make vigorous efforts in pollution prevention and environmental protection to raise the level of our green development. Moreover, we will explore and capture strategic emerging business opportunities through financial investments, thereby cultivating new growth drivers. The Company's capital expenditure for 2019 will be RMB 136.3 billion, increasing 15.5% year-on-year.

Great aspiration and strong persistence will create remarkable accomplishments. I believe that with the joint efforts of the Board of Directors, the management and the entire staff, as well as the support from our shareholders and the community. Sinopec Corp. will surely stride ahead and create greater value for shareholders and the community.

Dai Houliang
Chairman

Beijing, China
22 March 2019

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

In 2018, the global economic recovery was slow while China maintained an overall stable economic performance with its gross domestic product (GDP) up by 6.6%. International oil prices fluctuated in a wide range. Domestic demand for natural gas grew rapidly. Domestic oil products market saw fierce competition because of oversupply, and demand for chemicals increased steadily. Meanwhile, China's environmental regulations became more stringent. The Company actively coped with market changes by focusing on reform, management, innovation and development. We coordinated all aspects of our work by pressing ahead measures for optimised operation, market expansion, cost reduction, risk control, reform promotion, and management enforcement, which helped the company achieve solid operating results.

1 MARKET REVIEW

(1) Crude Oil & Natural Gas Market

In 2018, international crude oil prices fluctuated upward in the first three quarters, but slid rapidly in the fourth quarter. The spot price of Platt's Brent for the year averaged USD 71.03 per barrel, up by 31.1%. Along with the changes in China's energy mix, domestic demand for natural gas remained strong. Domestic apparent consumption of natural gas reached 280.3 billion cubic meters, up by 18.1% year on year.

(2) Refined Oil Products Market

In 2018, domestic demand for refined oil products maintained its growth while market supply was in surplus, which led to intense competition. According to statistics released by the NDRC, the apparent consumption of refined oil products (including gasoline, diesel and kerosene) was 325 million tonnes, up by 6.0% from the previous year, with gasoline up by 7.8%, kerosene up by 8.4% and diesel up by 4.1%. Prices for domestic refined oil products were adjusted timely with the international oil prices. There were 24 price adjustments throughout the year with 13 increases and 11 decreases.

(3) Chemical Products Market

Domestic demand for chemicals kept strong momentum in 2018. Based on our statistics, domestic consumption of ethylene equivalent was up by 9.2% from the previous year, and the apparent consumption of synthetic resin, synthetic fibre and synthetic rubber rose by 7.7%, 7.6% and 0.6%, respectively. Domestic chemical product prices followed the same trend with international chemical product prices.

2 PRODUCTION & OPERATIONS REVIEW

(1) Exploration and Production

In 2018, we pressed ahead with high-efficiency exploration and profit-oriented development. Measures were taken to accelerate the formation of an integrated value chain of natural gas business including production, supply, storage and marketing and continuously reduce cost and expenditure on all fronts. Tangible results were achieved in maintaining oil production, increasing gas output and reducing cost. We reinforced preliminary exploration in new areas and strengthened integrated detailed evaluation in mature fields, which led to new discoveries in Tarim, Yin'e and Sichuan basins. The Company's newly added proved reserves in China reached 458.2 million barrels of oil equivalent, with crude oil reserve replacement ratio at 131.7%. In crude oil development, we made a full-fledged push to build profitable production capacity, deepen the structural adjustment of mature fields, reduce natural decline rate and ensure steady production. In natural gas development, we constantly pushed forward capacity building in Hangjinqi of Neimongol, the eastern slope of west Sichuan Depression and Weirong shale gas fields. We optimised production and distribution and promoted a coordinated growth along the value chain. The Company's production of oil and gas reached 451.46 million barrels of oil equivalent, with domestic crude production registering 248.93 million barrels and natural gas production totaling 977.32 billion cubic feet, up by 7.1%.

Summary of Operations for the Exploration and Production Segment

	2018	2017	2016	Change from 2017 to 2018(%)
Oil and gas production (mmboe)	451.46	448.79	431.29	0.6
Crude oil production (mmbbls)	288.51	293.66	303.51	(1.8)
China	248.93	248.88	253.15	0.02
Overseas	39.58	44.78	50.36	(11.6)
Natural gas production (bcf)	977.32	912.50	766.12	7.1

Summary of Reserves of Crude Oil and Natural Gas

Items	Crude oil reserves (mmbbls)	
	31 December 18	31 December 17
Proved reserves	1,666	1,599
Proved developed reserves	1,533	1,429
China	1,244	1,124
Consolidated subsidiaries	1,244	1,124
Shengli	910	811
Others	334	313
Overseas	289	305
Consolidated subsidiaries	27	32

Equity accounted entities	261	273
Proved undeveloped reserves	134	170
China	96	137
Consolidated subsidiaries	96	137
Shengli	16	49
Others	80	88
Overseas	38	33
Consolidated subsidiaries	0	0
Equity accounted entities	38	33

Items	Natural gas reserves (bcf)	
	31 December 18	31 December 17
Proved reserves	6,807	6,997
Proved developed reserves	5,835	6,012
China	5,822	6,000
Consolidated subsidiaries	5,822	6,000
Puguang	1,904	2,127
Fuling	1,149	1,121
Others	2,769	2,752
Overseas	13	12
Consolidated subsidiaries	0	0
Equity accounted entities	13	12
Proved undeveloped reserves	972	985
China	972	985
Consolidated subsidiaries	972	985
Fuling	195	187
Others	777	798

Exploration and Production Activities

	Wells drilled (as of 31 December)							
	2018				2017			
	Exploratory Productive	Development Dry	Exploratory Productive	Development Dry	Exploratory Productive	Development Dry	Exploratory Productive	Development Dry
China	286	131	1,941	6	266	149	1,442	9
Consolidated subsidiaries	286	131	1,941	6	266	149	1,442	9
Shengli	149	71	1,201	5	151	71	845	1
Others	137	60	740	1	115	78	597	8
Overseas	0	0	70	0	2	1	119	0
Consolidated subsidiaries	0	0	0	0	0	0	0	0
Equity accounted entities	0	0	70	0	2	1	119	0
Total	286	131	2,011	6	268	150	1,561	9

Wells drilling (as of 31 December)
2018

2017

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	Gross		Net		Gross		Net	
	Exploratory	Development	Exploratory	Development	Exploratory	Development	Exploratory	Development
China	69	277	69	277	62	147	62	147
Consolidated subsidiaries	69	277	69	277	62	147	62	147
Shengli	25	72	25	72	19	0	19	0
Others	44	205	44	205	43	147	43	147
Overseas	0	10	0	10	0	5	0	5
Consolidated subsidiaries	0	0	0	0	0	0	0	0
Equity accounted entities	0	10	0	10	0	5	0	5
Total	69	287	69	287	62	152	62	152

	Oil productive wells (as of 31 December)			
	2018		2017	
	Gross	Net	Gross	Net
China	51,030	51,030	50,121	50,121
Consolidated subsidiaries	51,030	51,030	50,121	50,121
Shengli	32,805	32,805	32,105	32,105
Others	18,225	18,225	18,016	18,016
Overseas	7,293	3,939	7,350	3,968
Consolidated subsidiaries	28	14	28	14
Equity accounted entities	7,265	3,925	7,322	3,954
Total	58,323	54,969	57,471	54,089

Region	Natural gas productive wells (as of 31 December)			
	2018		2017	
	Gross	Net	Gross	Net
China	5,068	5,028	4,800	4,762
Consolidated subsidiaries	5,068	5,028	4,800	4,762
Puguang	58	58	57	57
Fuling	368	368	266	266
Others	4,642	4,602	4,477	4,439
Total	5,068	5,028	4,800	4,762

Unit: Square kilometers

	Area under license (as of 31 December)	
	2018	2017
	Acreage with exploration licenses	525,269
China	525,269	621,529
Acreage with development licenses	36,748	36,604
China	31,643	31,498
Overseas	5,106	5,106

(2) Refining

In 2018, with market-oriented approach, we optimised product mix to produce more gasoline, jet fuel and chemical feedstock, production of high value-added products further increased, and diesel-to-gasoline ratio declined to 1.06. We proactively promoted structural adjustment and quality upgrading projects, the GB VI standard upgrading is completed successfully. We moderately increased the export of oil products to keep a relatively high utilisation rate. Optimisation of resources allocation were carried out to reduce crude oil cost. In 2018, the Company processed 244 million tonnes of crude oil, up by 2.3% and produced 155 million tonnes of refined oil products, up by 2.7%, with gasoline up by 7.2% and kerosene up by 7.6% year on year.

Summary of Operations for the Refining Segment

Unit: million tonnes

	2018	2017	2016	Change from
				2017 to 2018 (%)
Refinery throughput	244.01	238.50	235.53	2.3
Gasoline, diesel and kerosene production	154.79	150.67	149.17	2.7

Gasoline	61.16	57.03	56.36	7.2
Diesel	64.72	66.76	67.34	(3.1)
Kerosene	28.91	26.88	25.47	7.6
Light chemical feedstock production	38.52	38.60	38.54	(0.2)
Light product yield (%)	76.00	75.85	76.33	0.15 percentage points
Refinery yield (%)	94.93	94.88	94.70	0.05 percentage points

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

(3) Marketing and Distribution

In 2018, confronted with fierce market competition, the Company aimed to achieve a balance between sales volume and profits. We brought our advantages of integrated business and distribution network into full play, and increased marketing efforts, thus, achieved sustained growth in both total domestic sales volume and retail scale. We adopted a flexible and targeted marketing strategy and upgraded our distribution network to further strengthen our existing advantages. We proactively promoted vehicle natural gas business and accelerated the construction and operation of CNG stations. Total sales volume of refined oil products for the year was 198 million tonnes, of which domestic sales volume accounted for 180 million tonnes. Meanwhile, we strengthened development and marketing of self-owned brands to speed up the growth of non-fuel business.

Summary of Operations for the Marketing and Distribution Segment

	2018	2017	2016	Change from 2017 to 2018 (%)
Total sales volume of oil products (million tonnes)	198.32	198.75	194.84	(0.2)
Total domestic sales volume of oil products (million tonnes)	180.24	177.76	172.70	1.4
Retail sales (million tonnes)	121.64	121.56	120.14	0.1
Direct sales and distribution (million tonnes)	58.61	56.20	52.56	4.3
Annual average throughput per station (tonne/station)	3,979	3,969	3,926	0.3

	31 December2018	31 December2017	31 December2016	Change from the end of the previous year to the end of the reporting period(%)
Total number of service stations under the Sinopec brand	30,661	30,633	30,603	0.1
Number of company-operated stations	30,655	30,627	30,597	0.1

(4)Chemicals

In 2018, the Company stuck to the development philosophy of “basic plus high-end” to enhance effective supply. We persistently fine-tuned chemical feedstock mix to lower cost. We optimised products slate and increased high-end products output. The ratio of new and specialty products in synthetic resin reached 64.3%, the ratio of high-value-added products in synthetic rubber amounted to 26.3%, and our differential ratio of synthetic fibre reached 90.4%. By optimising utilisation rate and production plan based on market demand, we improved the operation of chemical units. To reinforce the capacity structural adjustment, we actively promoted several key projects. Annual ethylene production was 11.51 million tonnes. The Company also intensified its efforts to enhance the efficiency of the integration among production, marketing, R&D, and application as well as promoted targeted marketing and servicing to further expand our business, with total chemical sales volume increased by 10.3% to 86.6 million tonnes, hitting a record high.

Summary of Operations for the Chemicals Segment

Unit: thousand tonnes

	2018	2017	2016	Change from 2017 to 2018 (%)
Ethylene	11,512	11,610	11,059	(0.8)
Synthetic resin	15,923	15,938	15,201	(0.1)
Synthetic rubber	896	848	857	5.7
Synthetic fiber monomer and polymer	9,343	9,439	9,275	(1.0)
Synthetic fiber	1,218	1,220	1,242	(0.2)

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

(5)Research and Development

In 2018, with the emphasis on reinforcing innovation-driven strategy, the Company accomplished notable results in R&D, deepened reform of R&D mechanism and pushed ahead with efforts in key and frontier technologies. In upstream segment, further advancement in evaluation technology of buried hill bedrock and deep carbonate reservoir

and fracturing technology of deep shale gas field brought the breakthroughs in the exploration of Guaizihu Depression in Yin'e Basin and new series of strata in Maokou Formation in Yuanba area as well as the discovery of Weirong deep shale gas field. The pilot test of 185℃ high temperature measurement while drilling was successfully conducted in the ultra-deep well in Shunbei. In refining, we realised the industrialisation of technologies including new sulfuric acid alkylation and hydro-isomerisation dewaxing for producing high grade base oil. In chemicals, the industrial demonstration unit of HPPO achieved stable operation and new products like PE film turned into commercial production. In addition, SOR, the framework type code of a novel structured zeolite synthesized by us, has been approved by the Structure Commission of International Zeolite Association, making us the first Chinese company to achieve a breakthrough in this area. In 2018, the Company had 6,074 patent applications at home and abroad, among which 4,434 were granted. The Company also won one second prize of National Technology Invention and three second prizes of National Sci-tech Progress, four silver and four excellent prizes of National Patent Awards.

(6) Health, Safety, Security and Environment

In 2018, the Company constantly promoted the HSSE management. We implemented the concept of “Comprehensive Health” by integrating the management of occupational, physical and mental health of our employees. The Company took stringent measures to control risks and supervise the safety and operations of contractors. We also strengthened safety measures at all levels, removing potential hazards and enhancing our emergency response capability, all achieved sound and reliable production and operation. Public security management capability was strengthened with improvement in risk evaluation, monitoring and early warning and emergency response mechanism. The green and low-carbon growth strategy was further carried out by promoting clean energy and green development, such as steadily pushing forward our Green Enterprise Campaign and Efficiency Doubling Plan. We accomplished all emission reduction targets by pursuing clean production and preventing pollutions. For more detailed information, please refer to “Communication on Progress for Sustainable Development 2018 of Sinopec Crop”.

(7) Capital Expenditures

In 2018, focusing on quality and profitability of investment, the Company continuously optimised its capital projects, with total capital expenditures of RMB 118 billion. Capital expenditure for the exploration and production segment was RMB 42.2 billion, mainly for Fuling and Weirong shale gas development projects, Hangjinqi natural gas development project, Shengli and Northwest crude oil development projects, phase I of Xinjiang gas pipeline, phase I of Erdos-Anping-Cangzhou gas pipeline, Wen 23 and Jintan gas storages, as well as overseas projects. Capital expenditure for the refining segment was RMB 27.9 billion, mainly for Zhongke Refining and Petrochemical project, Zhenhai, Tianjin, Maoming and Luoyang refineries, the gasoline and diesel GB VI quality upgrading projects and the construction of Rizhao-Puyang-Luoyang crude pipeline. Capital expenditure for the marketing and distribution segment was RMB 21.4 billion, mainly for construction of oil products depots, pipelines, service stations, non-fuel business and the renovation of underground oil tanks to remove potential safety hazards. Capital expenditure for the chemicals segment was RMB 19.6 billion, mainly for ethylene projects in Zhongke, Zhenhai and Gulei, Phase II of Hainan high-efficiency and environmentally-friendly aromatics project, Sinopec-SABIC Polycarbonate project and Zhongan coal chemical project. Capital expenditure for corporate and others was RMB 6.9 billion, mainly for setting up the joint-venture of Sinopec Capital Company with Sinopec Group, R&D facilities and information technology projects.

BUSINESS PROSPECTS

(1) Market Outlook

Looking ahead to 2019, the international economy is expected to show a slower growth rate in the midst of a complex and uncertain global political and economic environment. Meanwhile, continued growth of China’s economy will further drive up domestic demand for high-end refined oil products and petrochemicals. As the adjustment of China’s energy mix deepens, demand for natural gas will continue to grow at a rapid pace. Considering uncertainties of supply capacity of major oil producing countries, global oil demand and geopolitical issues, etc., the international oil price is expected to fluctuate within a wide range.

(2) Operations

In 2019, adhering to the general principle of seeking progress while maintaining stability, the new development philosophy and the operating guidelines of “specialised development, market-based operation, internationalisation and overall coordination”. The following activities will be prioritized during the year.

Exploration and Production, by fully implementing the action plan of redoubling efforts in oil and gas exploration and production, we will advance high-efficiency exploration, continuously increase proved reserves and expand resource base. In crude oil development, more efforts will be made in promoting the capacity building of the Tahe Oilfield, making technological breakthrough for undeveloped oil-bearing reservoirs, improving refined reservoir characterization of mature fields in order to increase reserve development rate and recovery rate. In natural gas development, we will accelerate the capacity construction of key projects, optimise the system of natural gas

production, supply, storage and marketing as well as the market layout so as to foster coordinated development of the whole business value chain. In 2019, we plan to produce 288 million barrels of crude oil, among which overseas production will be 39 million barrels, and 1,019.1 billion cubic feet of natural gas.

Refining, with integrated planning, we will optimise crude oil allocation, reinforce inventory management, and push forward the high-efficiency operation of the refining value chain. Maintenance will be arranged according to market changes so as to achieve maximum overall profit. We will further optimise product mix by lowering diesel-to-gasoline ratio and increasing the production of gasoline, jet fuel and light chemical feedstock. The quality upgrading plan for new spec marine fuel oil will be implemented to raise capacity utilisation ratio. Marketing mechanisms will be improved to push up the total trading volume of other refined oil products. In 2019, we plan to process 246 million tonnes of crude oil and produce 157 million tonnes of refined oil products.

Marketing and Distribution, insisting the marketing strategy of balancing profits and sales volume, we will continue to optimise resources allocation, expand market, and increase operation profit. We will carry out targeted and differential marketing with customers at its core so as to constantly improve service quality. The marketing and distribution network will be further improved to amplify the existing advantages. We will accelerate the construction and operation of natural gas stations and expand natural gas market for automobiles. Substantial progress will be made in hydrogen refueling stations and charging and battery swap stations. We will explore the new business mode of “Internet + service stations + convenience stores + comprehensive services” to advance the development and marketing of self-owned brands and to advance the growth of non-fuel business. In 2019, we plan to sell 182 million tonnes of refined oil products in the domestic market.

Chemicals, we will further adjust feedstock mix, product slate and facilities structure to constantly strengthen competitiveness. The continuous feedstock mix optimisation will diversify feedstock procurement channels and reduce costs. More efforts will be made in adjusting product slate and coordinating production, marketing, research and application to raise the proportion of high-end products. We will enhance the dynamic optimisation of facilities and product chain, and improve the utilisation and production scheduling based on market demand. We will strengthen market analysis to actively expand market, thus increasing market shares. Meanwhile, advantages cultivation and production capacity building will be accelerated to produce high-end products and create more value. In 2019, we plan to produce 12.12 million tonnes of ethylene.

Research and Development, we will continue to fully implement the innovation-driven development strategy, deepen the reform of scientific and technological systems, accelerate key technological breakthroughs, push ahead with frontier research on leading technologies, and step up the commercial application of technological achievement so as to strive for sustainable development in an all-round way. With the emphasis on constantly advancing oil and gas exploration and production technologies, we will focus on achieving breakthroughs in oil and gas exploration and production and resource evaluation technologies. In refining, more efforts will be made in making progress in refined oil product quality upgrading technologies, enhancing the technology development of self-owned refined oil product, and reinforcing the research on refinery total process optimisation technology. In chemicals, we will continue to improve the technological system for chemical products and strengthen development of high-value-added new materials. Technological breakthrough in safety and environmental protection will be stepped up. At the same time, prospective and basic research will be carried out on such leading and new areas including new energy, new materials, artificial intelligence and low-carbon so as to boost innovation.

Capital Expenditures, in 2019, we will further focus on investment quality and profitability through constantly optimising capital projects. Capital expenditures for the year are budgeted at RMB 136.3 billion. Of which RMB 59.6 billion will be invested in exploration and production with focuses on the production capacity building of Shengli Oilfield, Northwest Oilfield, Leikou Slope in western Sichuan, Fuling Shale Gas Field and Weirong Shale Gas Field, and the construction of natural gas pipelines and storage facilities as well as overseas oil and gas projects. The capital expenditure for refining will amount to RMB 27.9 billion which will be spent on the construction of Zhongke and Zhenhai Projects, and the refining structural adjustment projects of Tianjin, Maoming, Luoyang, Wuhan, Beihai and Yangzi. RMB 21.8 billion are budgeted for marketing and distribution with emphases on the construction of depots and storage facilities for refined oil products, pipelines and service stations, non-fuel business development, as well as renovation of underground oil storage tanks. The share for chemicals will be RMB 23.3 billion which will be used on

Zhongke, Zhenhai, Gulei, Hainan and Wuhan, coal chemical projects of Bijie and Zhongan, and comprehensive resource utilisation and structural adjustment projects of Yangzi and SSTPC. The capital expenditure for corporate and others will reach RMB 3.7 billion, mainly for R&D facilities and information technology projects.

In 2019, adhering to the concept of innovative, coordinated, green, open and share development, we will continue to consolidate development foundation, focus on long term strategies and push forward high-quality development in an all-round way to achieve sound results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

1 CONSOLIDATED RESULTS OF OPERATIONS

In 2018, the Company's turnover and other operating revenues was RMB 2,891.2 billion, increased by 22.5% compared with that of 2017. The operating profit was RMB 82.3 billion, representing a year on year increase of 15.1%.

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

	Year ended 31 December		
	2018	2017	Change (%)
	RMB million	RMB million	
Turnover and other operating revenues	2,891,179	2,360,193	22.5
Turnover	2,825,613	2,300,470	22.8
Other operating revenues	65,566	59,723	9.8
Operating expenses	(2,808,915)	(2,288,723)	22.7
Purchased crude oil, product and operating supplies and expenses	(2,292,983)	(1,770,651)	29.5
Selling, general and administrative expenses	(65,642)	(64,973)	1.0
Depreciation, depletion and amortisation	(109,967)	(115,310)	(4.6)
Exploration expenses, including dry holes	(10,744)	(11,089)	(3.1)
Personnel expenses	(77,721)	(74,854)	3.8
Taxes other than income tax	(246,498)	(235,292)	4.8
Other operating expense, net	(5,360)	(16,554)	(67.6)
Operating profit	82,264	71,470	15.1
Net finance costs	1,001	(1,560)	(164.2)
Investment income and share of profits less losses from associates and joint ventures	15,845	16,787	(5.6)
Profit before taxation	99,110	86,697	14.3
Income tax expense	(20,213)	(16,279)	24.2
Profit for the year	78,897	70,418	12.0
Attributable to:			
Shareholders of the Company	61,618	51,244	20.2
Non-controlling interests	17,279	19,174	(9.9)

(1) Turnover and other operating revenues

In 2018, the Company's turnover was RMB 2,825.6 billion, representing an increase of 22.8% over 2017. This was mainly attributed to the prices increase of major products. Meanwhile, sales volume also increased as a result of the Company's efforts in bringing our advantages in distribution network into full play, constantly promoting targeted marketing, optimising allocation of internal and external resources and reinforcing market expansion.

The following table sets forth the external sales volume, average realised prices and respective rates of change of the Company's major products in 2018 and 2017:

Average realised price

	Sales volume (thousand tonnes)			(RMB/tonne, RMB/thousand cubic meters)		
	Year ended			Year ended		
	31 December			31 December		
	2018	2017	Change (%)	2018	2017	Change (%)
Crude oil	6,595	6,567	0.4	3,100	2,390	29.7
Natural gas (million cubic meters)	24,197	22,529	7.4	1,400	1,290	8.5
Gasoline	88,057	83,933	4.9	7,870	6,941	13.4
Diesel	84,630	88,848	(4.7)	5,996	5,038	19.0
Kerosene	25,787	25,557	0.9	4,562	3,531	29.2
Basic chemical feedstock	40,520	35,964	12.7	5,488	4,855	13.0
Monomer and polymer for synthetic fibre	11,127	10,267	8.4	6,971	6,038	15.5
Synthetic resin	14,433	13,199	9.3	8,634	8,155	5.9
Synthetic fibre	1,314	1,304	0.8	9,712	8,556	13.5
Synthetic rubber	1,114	1,128	(1.2)	10,619	11,913	(10.9)
Chemical fertiliser	794	698	13.8	2,096	2,010	4.3

Most crude oil and a small portion of natural gas produced by the Company were internally used for refining and chemical production, with the remaining sold to external customers. In 2018, the turnover from crude oil, natural gas and other upstream products sold externally amounted to RMB 93.5 billion, an increase of 35.2% over 2017. The change was mainly due to the company seized opportunities of the prices increase in crude oil and natural gas to maintain steady crude oil production and rapidly expanded production of natural gas.

In 2018, petroleum products (mainly consisting of refined oil products and other refined petroleum products) sold by Refining Segment and Marketing and Distribution Segment achieved external sales revenues of RMB 1,557.9 billion (accounting for 53.9% of the Company's turnover and other operating revenues), representing an increase of 17.6% over 2017, mainly due to the increase in petroleum products' prices, as well as the Company actively coped with market challenge caused by resources oversupply, optimised production and operation with the market-oriented approach and maintained high utilisation rate. The sales revenue of gasoline, diesel and kerosene was RMB 1,318.1 billion, representing an increase of 17.6% over 2017, and accounting for 84.6% of the total sales revenue of petroleum products. Turnover of other refined petroleum products was RMB 239.8 billion, representing an increase of 17.6% compared with 2017, accounting for 15.4% of the total sales revenue of petroleum products.

Chemical products sold by Chemicals Segment achieved external sales revenue of RMB 457.4 billion, representing an increase of 22.4% over 2017, accounting for 15.8% of the Company's total turnover and other operating revenues. This was mainly due to the increase in price and sales volume of chemical products, which resulting from the

Company seized good market opportunities and strengthened the coordination between production and marketing to positively expand market share and trading scale.

(2) Operating expenses

In 2018, the Company's operating expenses was RMB 2,808.9 billion, increased by 22.7% compared with 2017. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses was RMB 2,293.0 billion, representing an increase of 29.5% over the same period of 2017, accounting for 81.6% of the total operating expenses, of which:

Crude oil purchasing expenses was RMB 701.3 billion, representing an increase of 41.1% over the same period of 2017. Throughput of crude oil purchased externally in 2018 was 227.19 million tonnes (excluding the volume processed for third parties), representing an increase of 7.7% over the same period of 2017. The average cost of crude oil purchased externally was RMB 3,452 per tonne, representing an increase by 30.0% over 2017.

The Company's purchasing expenses of refined oil products was RMB 355.5 billion, representing an increase of 18.3% over the same period of 2017. This was mainly due to the increase in prices of externally purchased refined oil products, which were in line with the increase in prices of crude oil.

The Company's purchasing expense related to trading activities was RMB 655.4 billion, representing an increase of 30.1% over the same period of 2017. This was mainly due to the increase in prices of externally purchased crude oil and refined oil products in the trading business.

The Company's other purchasing expenses was RMB 580.7 billion, representing an increase of 23.8% over the same period of 2017. This was mainly due to the increase in prices of externally purchased oil related products in line with the increase in prices of crude oil.

Selling, general and administrative expenses was RMB 65.6 billion, representing an increase of 1.0% over 2017 as a result of the increase in R&D expenses.

Depreciation, depletion and amortisation was RMB 110.0 billion, representing a decrease of 4.6% compared with 2017. That was mainly due to the Company reinforced efficient exploration, enhanced profit-oriented production of refined reservoir with an emphasis on increasing proved reserves of crude oil and natural gas. Meanwhile, its depreciation and depletion decreased as a result of the Company's proved reserves increased in line with the increase in crude oil price.

Exploration expenses was RMB 10.7 billion, representing a decrease of 3.1% year on year. That was mainly due to the Company constantly reinforced the management of exploration investment, improved exploration success rate.

Personnel expenses was RMB 77.7 billion, representing an increase of 3.8% over 2017.

Taxes other than income tax was RMB 246.5 billion, representing an increase of 4.8% compared with 2017. That was mainly because of increased consumption tax as a result of the increase in the sales volume of refined oil products, as well as resource tax and special oil income levy increased resulting from increase in crude oil price.

Other operating expense, net was RMB 5.4 billion, decreased 67.6% over the same period of 2017. That was mainly due to the decrease in impairment during the year.

Operating profit was RMB 82.3 billion, representing an increase of 15.1% compared with 2017. Loss from upstream business greatly reduced and downstream business achieved good profit under the fierce market competition, as the Company persistently centralised on value-oriented operation, focused on improving asset quality, increasing asset efficiency, and upgrading asset structure.

(4) Profit before taxation was RMB 99.1 billion, representing an increase of 14.3% compared with 2017.

(5) Income tax expense was RMB 20.2 billion, representing an increase of 24.2% year on year, mainly due to the increase in profit and the decrease in exempt investment income.

(6) Profit attributable to non-controlling interests was RMB 17.3 billion, representing an increase of RMB 1.9 billion compared with 2017.

(7) Profit attributable to shareholders of the Company was RMB 61.6 billion, representing an increase of 20.2% year on year.

2 RESULTS OF SEGMENT OPERATIONS

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

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

	Operating revenues Year ended 31 December		As a percentage of consolidated operating revenue before elimination of inter-segment sales Year ended 31 December		As a percentage of consolidated operating revenue after elimination of inter-segment sales Year ended 31 December	
	2018	2017	2018	2017	2018	2017
	RMB million	RMB million	(%)	(%)	(%)	(%)
Exploration and Production Segment						
External sales*	104,237	79,701	2.2	2.1	3.6	3.4
Inter-segment sales	95,954	77,804	2.0	2.0		
Operating revenues	200,191	157,505	4.2	4.1		
Refining Segment						
External sales*	154,319	137,582	3.2	3.6	5.3	5.8
Inter-segment sales	1,109,088	874,271	22.9	23.0		
Operating revenues	1,263,407	1,011,853	26.1	26.6		
Marketing and Distribution Segment						
External sales*	1,441,413	1,220,235	29.9	32.1	49.9	51.7
Inter-segment sales	5,224	3,962	0.1	0.1		
Operating revenues	1,446,637	1,224,197	30.0	32.2		
Chemicals Segment						
External sales*	472,898	388,128	9.8	10.2	16.4	16.5
Inter-segment sales	73,835	49,615	1.5	1.3		
Operating revenues	546,733	437,743	11.3	11.5		
Corporate and Others						
External sales*	718,312	534,547	14.9	14.0	24.8	22.6
Inter-segment sales	650,271	440,303	13.5	11.6		
Operating revenues	1,368,583	974,850	28.4	25.6		
Operating revenue before elimination	4,825,551	3,806,148	100.0	100.0		

of inter-segment sales				
Elimination of inter-segment sales	(1,934,372)	(1,445,955)		
Turnover and other operating revenues	2,891,179	2,360,193	100.0	100.0

*. Other operating revenues are included.

The following table sets forth the operating revenues, operating expenses and operating profit by each segment before elimination of the inter-segment transactions for the periods indicated, and the percentage change of 2018 compared to 2017.

	Year ended 31 December		
	2018	2017	Change
	RMB million	RMB million	(%)
Exploration and Production Segment			
Operating revenues	200,191	157,505	27.1
Operating expenses	210,298	203,449	3.4
Operating loss	(10,107)	(45,944)	—
Refining Segment			
Operating revenues	1,263,407	1,011,853	24.9
Operating expenses	1,208,580	946,846	27.6
Operating profit	54,827	65,007	(15.7)
Marketing and Distribution Segment			
Operating revenues	1,446,637	1,224,197	18.2
Operating expenses	1,423,173	1,192,628	19.3
Operating profit	23,464	31,569	(25.7)
Chemicals Segment			
Operating revenues	546,733	437,743	24.9
Operating expenses	519,726	410,766	26.5
Operating profit	27,007	26,977	0.1
Corporate and Others			
Operating revenues	1,368,583	974,850	40.4
Operating expenses	1,377,876	979,334	40.7
Operating loss	(9,293)	(4,484)	—
Elimination of inter-segment (loss)/profit	(3,634)	(1,655)	—

(1) Exploration and Production Segment

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

In 2018, the operating revenues of this segment was RMB 200.2 billion, representing an increase of 27.1% over 2017. This was mainly attributed to the rise of realised price of crude oil and natural gas as well as the expansion of natural gas and LNG business.

In 2018, the segment sold 34.79 million tonnes of crude oil, representing a decrease of 1.5% over 2017. Natural gas sales volume was 26.25 billion cubic meters (bcm), representing an increase of 7.2% over 2017. Regasified LNG sales volume was 8.33 bcm, representing an increase of 72.9% over 2017. LNG sales volume was 2.856 million tonnes, representing an increase of 25.1% over 2017. Average realised prices of crude oil, natural gas, Regasified LNG, and LNG were RMB 3,046 per tonne, RMB 1,410 per thousand cubic meters, RMB 1,934 per thousand cubic meters, and

RMB 3,779 per tonne, representing increase of 30.1%, 8.8%, 11.0%, and 23.7% respectively over 2017.

In 2018, the operating expenses of this segment was RMB 210.3 billion, representing an increase of 3.4% over 2017. That was mainly due to the following:

Resource Tax and special oil income levy increased by RMB 2.8 billion year on year, as a result of increase in crude oil prices;

Personnel expenses increased by RMB 2.4 billion year on year;

Procurement cost increased by RMB 16.2 billion year on year, as a result of expansion of LNG business and increase in LNG price;

Depreciation, depletion and amortisation decreased by RMB 6.5 billion year on year;

Impairment losses on long-lived assets decreased by RMB 9.3 billion year on year;

In 2018, the oil and gas lifting cost was RMB 796 per tonne, representing a year on year increase of 1.0%.

In 2018, the operating loss of the exploration and production segment was RMB 10.1 billion, representing a declined loss by RMB 35.8 billion as compared with 2017. By capturing the recovery of crude oil price, the segment reinforced efficient exploration, enhanced profitable production of refined reservoir, promoted stable production of crude oil, and rapidly expanded production of natural gas. By deducting the impairment losses on long-lived assets, the operating loss was RMB 5.8 billion.

(2) Refining Segment

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

In 2018, the operating revenues of this segment was RMB 1,263.4 billion, representing an increase of 24.9% over 2017. This was mainly attributed to the increase in products prices, as well as the Company's efforts in expanding the refinery throughput and increasing the sales volumes.

The following table sets forth the sales volumes, average realised prices and the respective changes of the Company's major refined oil products of the segment in 2018 and 2017.

	Sales Volume (thousand tonnes)			Average realised price (RMB/tonne)		
	Year ended 31 December			Year ended 31 December		
	2018	2017	Change (%)	2018	2017	Change (%)
Gasoline	59,746	54,273	10.1	7,386	6,538	13.0
Diesel	62,676	60,680	3.3	5,766	4,962	16.2
Kerosene	22,418	17,080	31.3	4,515	3,527	28.0
Chemical feedstock	38,524	36,951	4.3	3,910	3,204	22.0
Other refined petroleum products	61,439	58,801	4.5	3,312	2,929	13.1

In 2018, sales revenues of gasoline was RMB 441.3 billion, representing an increase of 24.4% over 2017.

The sales revenues of diesel was RMB 361.4 billion, representing an increase of 20.0% over 2017.

The sales revenues of kerosene was RMB 101.2 billion, representing an increase of 68.0% over 2017.

The sales revenues of chemical feedstock was RMB 150.6 billion, representing an increase of 27.2% over 2017.

The sales revenues of refined petroleum products other than gasoline, diesel, kerosene and chemical feedstock was RMB 203.5 billion, representing an increase of 18.2% over 2017.

In 2018, the segment's operating expenses was RMB 1,208.6 billion, representing an increase of 27.6% over 2017. This was mainly attributed to the increase in refinery throughput and procurement cost of crude oil.

In 2018, the average processing cost for crude oil was RMB 3,548 per tonne, representing an increase of 27.9% over 2017. Total crude oil processed was 248.29 million tonnes (excluding volume processed for third parties), representing an increase of 7.8% over 2017. The total cost of crude oil processed was RMB 880.8 billion, representing an increase of 37.9% over 2017.

In 2018, refining gross margin was RMB 461 per tonne, representing a reduction of RMB 49 per tonne compared with 2017. This is mainly due to the increased procurement cost of crude oil, as well as the narrowed gross margin of refined petroleum products other than gasoline, diesel, kerosene and chemical feedstock.

In 2018, the unit refining cash operating cost (defined as operating expenses less the processing cost of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax and other operating expenses, then divided by the throughput of crude oil and refining feedstock) was RMB 180.2 per tonne, an increase of RMB 5.1 per tonne over 2017, mainly because of increased operating expenses resulted from quality upgrading of refined oil products as well as product mix optimisation.

In 2018, the operating profit of the segment totaled RMB 54.8 billion, representing a decline of RMB 10.2 billion compared with 2017.

(3) Marketing and Distribution Segment

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

In 2018, the operating revenues of this segment was RMB 1,446.6 billion, representing an increase of 18.2% over 2017, of which: the sales revenues of gasoline totaled RMB 693.1 billion, representing an increase of 18.9% compared with 2017; the sales revenues of diesel was RMB 509.0 billion, representing an increase of 13.3% over 2017, and the sales revenues of kerosene was RMB 117.6 billion, representing an increase of 30.4% over 2017.

The following table sets forth the sales volumes, average realised prices, and the respective percentage changes of the segment's four major refined oil products in 2018 and 2017, including breakdown in retail, direct sales and wholesale of gasoline and diesel:

	Sales Volume (Thousand tonnes)			Average realised price (RMB/tonne)		
	Year ended 31 December			Year ended 31 December		
	2018	2017	Change (%)	2018	2017	Change (%)
Gasoline	88,076	83,980	4.9	7,870	6,941	13.4
Retail	66,855	66,364	0.7	8,296	7,346	12.9
Direct sales and wholesale	21,221	17,616	20.5	6,524	5,412	20.6
Diesel	84,865	89,146	(4.8)	5,998	5,039	19.0
Retail	43,327	44,736	(3.1)	6,435	5,588	15.2
Direct sales and wholesale	41,537	44,410	(6.5)	5,541	4,486	23.5
Kerosene	25,787	25,555	0.9	4,562	3,531	29.2
Fuel	23,372	23,299	0.3	2,974	2,251	32.1

In 2018, the operating expenses of the segment was RMB 1,423.2 billion, representing an increase of RMB 230.5 billion or 19.3% as compared with that of 2017. This was mainly due to the increase in refined oil products procurement price.

In 2018, the segment's marketing cash operating cost (defined as the operating expenses less purchase costs, taxes other than income tax, depreciation and amortisation, and then divided by the sales volume) was RMB 207 per tonne, representing an increase of 4.2% compared with that of 2017.

In 2018, the segment actively coped with the fierce market competition by taking advantages of integrated business and distribution network into full play, reinforcing the coordination of internal and external resources, constantly intensifying the market strategy of balancing profits and sales volume, and putting efforts to expand non-fuel business scale and profitability.

In 2018, the operating profit of this segment was RMB 23.5 billion, representing a decrease of 25.7% compared with 2017.

(4) Chemicals Segment

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

In 2018, the operating revenue of the chemicals segment was RMB 546.7 billion, representing an increase of 24.9% as compared with that of 2017, This was mainly due to increase in sales volume and price of chemical products as a result of the Company's effort in actively expanding sales volume and market share, optimising product mix.

The sales revenues generated by the segment's six major categories of chemical products (namely basic organic chemicals, synthetic resin, synthetic fibre monomer and polymer, synthetic fibre, synthetic rubber, and chemical fertiliser) totaled RMB 516.2 billion, representing an increase of 24.8% as compared with 2017, and accounted for 94.4% of the operating revenues of the segment.

The following table sets forth the sales volume, average realised prices and respective percentage changes of each of the segment's six major categories of chemical products in 2018 and 2017.

	Sales Volume (Thousand tonnes)			Average realised price (RMB/tonne)		
	Year ended 31 December			Year ended 31 December		
	2018	2017	Change (%)	2018	2017	Change (%)
Basic organic chemicals	52,450	46,351	13.2	5,281	4,684	12.7
Synthetic fibre monomer and polymer	11,252	10,332	8.9	6,978	6,047	15.4
Synthetic resin	15,325	13,215	16.0	8,646	8,153	6.0
Synthetic fibre	1,314	1,304	0.8	9,712	8,556	13.5
Synthetic rubber	1,278	1,138	12.3	10,750	11,957	(10.1)
Chemical fertiliser	796	700	13.7	2,093	2,008	4.2

In 2018, the operating expenses of the chemicals segment was RMB 519.7 billion, representing an increase of 26.5% over 2017, mainly because of the significant increase in the price of externally procured raw materials as compared with the same period in 2017.

In 2018, the segment seized the opportunities of high chemical margin, continuously optimised the structures of feedstock, product and facilities, strengthened the coordination among research, development, production and marketing, intensified allocation of resources, improved targeted marketing strategy, and achieved remarkable profits with increased sales volume of petrochemicals.

In 2018, the operating profit of this segment was RMB 27.0 billion, achieving an increase as compared with 2017.

(5)Corporate and Others

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

In 2018, the operating revenues generated from corporate and others was RMB 1,368.6 billion, representing an increase of 40.4% over 2017. This was mainly attributed to the increase in revenues from crude oil and overseas refined oil products trading business, as well as the rapid growth of the petrochemicals business scale through Epec platform.

In 2018, the operating expenses of corporate and others was RMB 1,377.9 billion, representing an increase of 40.7% over 2017.

In 2017, the operating losses from corporate and others was RMB 9.3 billion.

3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

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

(1) Assets, liabilities and equity

Unit: RMB million

	As of 31 December 2018	As of 31 December 2017	Change
Total assets	1,592,308	1,595,504	(3,196)
Current assets	504,120	529,049	(24,929)
Non-current assets	1,088,188	1,066,455	21,733
Total liabilities	735,773	742,614	(6,841)
Current liabilities	565,098	579,446	(14,348)
Non-current liabilities	170,675	163,168	7,507
Total equity attributable to shareholders of the Company	717,284	726,120	(8,836)
Share capital	121,071	121,071	—
Reserves	596,213	605,049	(8,836)
Non-controlling interests	139,251	126,770	12,481
Total equity	856,535	852,890	3,645

As of 31 December 2018, the Company's total assets was RMB 1,592.3 billion, representing a decrease of RMB 3.2 billion compared with that of the end of 2017, of which:

Current assets was RMB 504.1 billion, representing a decrease of RMB 24.9 billion compared with that of the end of 2017, mainly because the financial assets at fair value through profit and loss and trade accounts receivable and bills receivable decreased by RMB 25.5 billion and RMB 19.8 billion respectively, as well as the prepayments and other current assets increased by RMB 13.1 billion.

Non-current assets was RMB 1,088.2 billion, representing an increase of RMB 21.7 billion as compared with that of the end of 2017. This was mainly due to the depreciation and depletion of property, plant and equipment decreased by RMB 33.0 billion, construction in progress increased by RMB 18.3 billion. Equity of associates and joint ventures increased by RMB 9.8 billion, deferred tax assets increased by RMB 6.6 billion, lease prepayments increased by RMB 6.0 billion, long-term prepayment and other assets increased by RMB 9.4 billion.

The Company's total liabilities was RMB 735.8 billion, representing a decrease of RMB 6.8 billion compared with that of the end of 2017, of which:

Current liabilities was RMB 565.1 billion, representing a decrease of RMB 14.3 billion as compared with that of the end of 2017. This was mainly due to the short-term debts and loans from Sinopec Group decreased by RMB 19.5 billion, derivative financial liabilities and liabilities from contracts and other payables increased by RMB 10.9 billion and RMB 14.4 billion respectively, trade accounts payable and bills payable and taxes payable decreased by RMB 13.8 billion and RMB 6.3 billion respectively.

Non-current liabilities was RMB 170.7 billion, representing an increase of RMB 7.5 billion compared with that of the end of 2017. This was mainly due to long-term debts decreased by RMB 4.8 billion, provisions increased by RMB 2.8 billion, and other non-current liabilities increased by RMB 10.8 billion.

Total equity attributable to owners of the Company was RMB 717.3 billion, representing a decrease of RMB 8.8 billion compared with that of the end of 2017, which was mainly due to the capital reserve was RMB 596.2 billion, representing a decrease of RMB 8.8 billion. Minority interests was RMB 139.3 billion, representing an increase of RMB 12.5 billion.

(2)Cash Flow

The following table sets forth the major items in the consolidated cash flow statements for 2018 and 2017.

Unit: RMB million

Major items of cash flows	Year ended 31	
	December	
	2018	2017
Net cash generated from operating activities	175,868	190,935
Net cash used in investing activities	(66,422)	(145,323)
Net cash used in financing activities	(111,260)	(56,509)

In 2018, the net cash generated from operating activities of the company was RMB 175.9 billion, representing a decrease of RMB 15.1 billion as compared with 2017. Of which: profit before taxation increased by RMB 12.4 billion, depreciation, depletion & amortization and assets impairment loss decreased by RMB 15.5 billion, accounts receivable and net change for other current assets decreased by RMB 30.1 billion, net change for inventory decreased by RMB 25.6 billion, accounts payable and net change for other current liabilities decreased by RMB 57.1 billion, and the paid income tax increased by RMB 13.0 billion as compared with 2017.

In 2018, the net cash used in investing activities was RMB 66.4 billion, representing a decrease of RMB 78.9 billion over 2017. Of which: capital expenditure increased by RMB 31.2 billion, income from the change of structured deposit increased by RMB 76.6 billion, outcome from in time deposit with maturities over three months decreased by RMB 30.5 billion.

In 2018, the net cash used in the Company's financing activities was RMB 111.3 billion, representing an increase of cash out flow by RMB 54.8 billion over 2017. This was mainly due to the cash paid for dividends increased by RMB 35.1 billion, cash repayments of borrowings increased by RMB 13.9 billion, and distributions by subsidiaries to non-controlling interests increased by RMB 6.2 billion.

At the end of 2018, the cash and cash equivalents was RMB 111.9 billion.

(3)Contingent Liabilities

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

(4)Capital Expenditures

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

(5)Research & development and environmental expenditures

R&D expenditures occurred in the period including R&D expenses, expenditures for wildcat exploration, seismic data interpretation, and pilot demonstration project in upstream, expenditures for pilot test and relevant utilities of initial commercial trial in refining segment, as well as expenditures for research equipment. In 2018, the expenditures for R&D was RMB 12.876 billion, of which expense was RMB 7.96 billion (In 2017, the expenditures for R&D was RMB 11.533 billion, of which expense was RMB 6.423 billion).

Environmental expenditures refer to the normal routine pollutant discharge fees paid by the Company, excluding capitalised cost of pollutant treatment properties. In 2018, the Company paid environmental expenditures of RMB 7.94 billion.

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

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

Items relevant to measurement of main fair values

Unit: RMB million

Items	End of last year	Beginning of the year	End of the year	Profits and losses from variation of fair values in the current year	Accumulated variation of fair values recorded as equity	Impairment loss provision of the current year	Funding source
Financial assets at fair value through profit or loss of the reporting period	51,196	51,196	25,732	885	—	—	Self-owned fund
Structured Deposit	51,196	51,196	25,550	880	—	—	—
Stock	—	—	182	5	—	—	—
Available for sale financial assets	178	—	—	—	—	—	—
Stock	178	—	—	—	—	—	—
Derivative financial instruments	(522)	(522)	1,584	191	—	—	Self-owned fund
Cash flow hedges	(1,617)	(1,617)	(7,268)	(1,978)	(12,500)	—	Self-owned fund
Other equity instruments investment	—	1,676	1,450	—	(53)	—	Self-owned fund
Total	49,235	50,733	21,498	(902)	(12,553)	—	—

4 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER CASs

The major differences between the Company's financial statements prepared under CASs and IFRS are set out in Section C of the financial statements of the Company on page 212 of this report.

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

	Year ended 31 December	
	2018	2017
	RMB million	RMB million
Operating income		
Exploration and Production Segment	200,191	157,505
Refining Segment	1,263,407	1,011,853
Marketing and Distribution Segment	1,446,637	1,224,197
Chemicals Segment	546,733	437,743
Corporate and Others	1,368,583	974,850
Elimination of inter-segment sales	(1,934,372)	(1,445,955)
Consolidated operating income	2,891,179	2,360,193
Operating (loss)/profit		
Exploration and Production Segment	(11,557)	(47,399)
Refining Segment	53,703	64,047
Marketing and Distribution Segment	24,106	32,011
Chemicals Segment	25,970	22,796
Corporate and Others	(8,151)	(3,160)
Elimination of inter-segment sales	(3,634)	(1,655)

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Financial expenses, investment income, gains/(losses) from changes in fair value, asset disposal expense and other income	21,037	20,325
Consolidated operating profit	101,474	86,965
Net profit attributable to equity shareholders of the Company	63,089	51,119

Operating profit: In 2018, the operating profit of the Company was RMB 101.5 billion, representing an increase of RMB 14.5 billion as compared with 2017.

Net profit: In 2018, the net profit attributable to the equity shareholders of the Company was RMB 63.1 billion, representing an increase of RMB 12.0 billion or 23.4% comparing with 2017.

(2) Financial data prepared under CASs

	As of 31 December 2018 RMB million	As of 31 December 2017 RMB million	Change
Total assets	1,592,308	1,595,504	(3,196)
Non-current liabilities	169,551	161,988	7,563
Shareholders' equity	857,659	854,070	3,589

At the end of 2018, the Company's total assets was RMB 1,592.3 billion, representing a decrease of RMB 3.2 billion compared with that of the end of 2017.

At the end of 2018, the Company's non-current liabilities was RMB 169.6 billion, representing an increase of RMB 7.6 billion compared with that of the end of 2017.

At the end of 2018, the shareholders' equity of the Company was RMB 857.7 billion, representing an increase of RMB 3.6 billion compared with that of the end of 2017.

(3) The results of the principal operations by segments

Segments	Operation income RMB million	Operation cost RMB million	Gross profit margin* (%)	Increase (decrease) of operation income on a year-on-year basis (%)	Increase/ (decrease) of operation cost on a year-on- year basis (%)	Increase (decrease) of gross profit margin on a year-on-year basis (%)
Exploration and Production	200,191	165,444	11.6	27.1	7.3	15.1
Refining	1,263,407	952,577	6.4	24.9	35.4	(2.2)
Marketing and Distribution	1,446,637	1,355,391	6.1	18.2	20.2	(1.5)
Chemicals	546,733	492,991	9.4	24.9	27.7	(1.7)
Corporate and Others	1,368,583	1,365,348	0.2	40.4	41.7	(1.0)
Elimination of inter-segment sales	(1,934,372)	(1,930,738)	N/A	N/A	N/A	N/A
Total	2,891,179	2,401,013	8.4	22.5	27.0	(1.5)

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

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

Please refer to the note 3 in the financial statement complying with the PRC Accounting Standards for Business Enterprises (CASs).

6 SIGNIFICANT CHANGES IN MAJOR ASSETS DURING THE REPORTING PERIOD

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

SIGNIFICANT EVENTS

1 MAJOR PROJECTS

(1) Tianjin LNG project

The first phase of Tianjin LNG project with designed receiving capacity of 3 million tonnes per year consists mainly of the construction of wharf, terminal and transportation pipelines. It was completed and put into operation at the end of January 2018. The Company's self-owned fund accounts for approximately 40% of the project investment and bank loan is the main source of the remaining 60%. As of 31 December 2018, the aggregate investment was RMB 11.8 billion.

(2) Hainan Refining and Chemical expansion project

Hainan Refining and Chemical expansion project consists of 5,000,000 tpa refinery project and 1,000,000 tpa ethylene project, among which second set of high-efficiency and environment-friendly aromatics project started in August 2017 and is expected to be put into operation in June 2019. The Company's self-owned fund accounts for approximately 30% of the project investment and bank loan is the main source of the remaining 70%. As of 31 December 2018, the aggregate investment was RMB 2.6 billion.

(3) Zhongke integrated refining and chemical project

Zhongke integrated refining and petrochemical project mainly consists of a 10,000,000 tpa refinery project, 800,000 tpa ethylene unit, 300,000 tonne capacity jetty and relevant utilities project. The mechanical completion is expected to be achieved in June 2020. The Company's self-owned fund accounts for 30% of the project investment, bank loan is the main source of the remaining 70%. As of 31 December 2018, the aggregate investment was RMB 10.8 billion.

(4) Zhenhai Refining & Chemical expansion project

Zhenhai Refining & Chemical expansion project consists of 15,000,000 tpa refinery project and 1,200,000 tpa ethylene project. The project was approved in June 2018, ethylene and relevant projects started at the end of October 2018 and is expected to be put into operation in 2021. The Company's self-owned fund accounts for 30% of the project investment, bank loan is the main source of the remaining 70%. As of 31 December 2018, the aggregate investment was RMB 1.6 billion.

(5) E-An-Cang gas pipeline project

The first phase of E-An-Cang gas pipeline project mainly consists of the main pipeline from Luquan to Cangzhou and two branch pipelines Puyang and Baoding. The total length of the pipeline is 736 kilometers with a designed transmission capacity of 9 billion cubic meters per year. It is expected to be completed and put into operation in December 2019. The Company's self-owned fund accounts for 30% of the project investment and bank loan is the main source of the remaining 70%. As of 31 December 2018, the aggregate investment was RMB 4.9 billion.

(6) Wen 23 gas storage project

The first phase of Wen 23 gas storage project mainly consists of the construction of injection and production wells and surface facilities with storage capacity of 8.431 billion cubic meters. The gas storage is expected to be officially put into operation in July 2020. The Company's self-owned fund accounts for 30% of the project investment and bank loan is the main source of the remaining 70%. As of 31 December 2018, the aggregate investment was RMB 3.5 billion.

(7) Xinqi pipeline project

The main project of the first phase of Xinqi pipeline project was the construction of the pipeline from Qianjiang to Shaoguan. The total length of the pipeline is 839.5 kilometers with a designed transmission capacity of 6 billion cubic meters per year. It is expected to be completed and put into operation in July 2020. The Company's self-owned fund accounts for 38% of the project investment and bank loan is the main source of the remaining 62%. As of 31 December 2018, the aggregate investment was RMB 5.8 billion.

2 CORPORATE BONDS ISSUED AND INTEREST PAYMENTS

Basic information of corporate bonds

	Sinopec Corp.	Sinopec Corp.	Sinopec Corp	
Bond name	2010 Corporate bond	2012 Corporate bond	2015 Corporate bond (first issue)	
Abbreviation	10#30707;#21270;02	12#30707;#21270;02	15#30707;#21270;01	15#30707;#21270;02
Code	122052	122150	136039	136040
Issuance date	21 May 2010	1 June 2012	19 November 2015	
Maturity date	21 May 2020	1 June 2022	19 November 2018	19 November 2018
Amount issued (RMB billion)	9	7	16	4
Outstanding balance (RMB billion)	9	7	0	4
Interest rate (%)	4.05	4.90	3.30	3.70
Principal and interest repayment	Simple interest is calculated and paid on an annual basis without compounding interests. The principal will be paid at maturity with last installment of interest.			
Payment of interests	Sinopec Corp. had paid in full the interest accrued for the current period interest payment year and #65378;15#30707;#21270;01#65379; had been repaid and delisted from the Shanghai Stock Exchange.			
Investor Qualification Arrangement	15#30707;#21270;01 and 15#30707;#21270;02 were publicly offered to qualified investors in accordance with Administration of the Issuance and Trading of Corporate Bonds			
Listing exchange	Shanghai Stock Exchange			
Corporate bonds trustee	China International Capital Corporation Limited 27th-28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing Huang Xu, Zhai Ying (010) 6505 1166			
Credit rating agency	United Credit Ratings Co., Ltd. 12th Floor, PICC building, No.2 Jianguomenwai Avenue, Chaoyang District, Beijing			
Use of proceeds	Proceeds from the above-mentioned corporate bonds have been used for their designated purpose as disclosed. All the proceeds have been completely used.			
Credit rating	During the reporting period, United Credit ratings Co., Ltd. provided continuing credit rating for 10#30707;#21270;02, 12#30707;#21270;02, 15#30707;#21270;01 and 15#30707;#21270;02 and reaffirmed AAA credit rating. The long term credit rating and outlook of the Company remained at AAA and stable respectively. Pursuant to relevant regulations, the Company will publish its latest credit rating results through medias designated by regulators within two months commencing from the announcement date of annual report.			
Credit addition mechanism, repayment scheme and other relative events for	During the reporting period, there is no credit addition mechanism and change of the repayment arrangement for the above-mentioned corporate bonds. The Company strictly followed the provisions in the corporate bond prospectus to repay principals and interests of the corporate bonds. The guarantor of 10#30707;#21270;02 and 12#30707;#21270;02 is China Petrochemical Corporation. For more information of the guarantor, please refer to the annual report of corporate bonds which will be published on website of Shanghai Stock Exchange by China Petrochemical Corporation.			

corporate
bonds during
the reporting
period
Convening of
corporate
bond holders'
meeting

During the reporting period, the bondholders' meeting has not been convened.

Performance
of corporate
bonds trustee

During the durations of the above-mentioned bonds, the bond trustee, China International Capital Corporation Limited, has strictly followed the Bond Trustee Management Agreement and continuously tracked the Company's credit status, the use of bond proceeds and repayment of principals and interests of the bond. The bond trustee has also advised the Company to satisfy obligations as described in the corporate bond prospects and exercised its duty to protect the bondholders' legitimate rights and interests. The bond trustee is expected to disclose the Trustee Management Affairs Report after the publish of the Company's annual report. The details of such report will be available on the website of Shanghai Stock Exchange (<http://www.sse.com.cn>)

Principal accounting data and financial indicators for the two years ended 31 December 2018

Principal data	2018	2017	Change	Reasons for change
EBITDA (RMB million)	216,352	207,528	8,824	Mainly due to the increase of earnings compared with last year
Current ratio	0.89	0.91	(0.02)	Mainly due to the decrease of account receivable and inventories compared with last year
Quick ratio	0.57	0.59	(0.02)	Mainly due to the decrease of account receivable, and cash caused by the increase of dividend compared with last year
Liability-to-asset ratio (%)	46.14	46.47	(0.33) Percentage points	Mainly due to the decrease of financial leverage by lowering debts compared with last year
EBITDA to total debt ratio	1.33	1.11	0.22	Mainly due to the increase of EBITDA
Interest coverage ratio	16.76	14.60	2.16	Mainly due to the increase of EBIT compared with last year
Cash flow interest coverage ratio	35.92	39.11	(3.19)	Mainly due to the decrease of cash caused by the increase of dividend compared with last year
EBITDA-to-interest coverage ratio	33.93	32.59	1.34	Mainly due to the increase of EBITDA
Loan repayment rate (%)	100	100	—	
Interest payment rate (%)	100	100	—	

During the reporting period, the Company paid in full the interest accrued for the other bonds and debt financing instruments. As at 31 December 2018, the standby credit line provided by several domestic financial institutions to the Company was RMB 392.7 billion in total, facilitating the Company to get such amount of unsecured loans. The Company has fulfilled all the relevant undertakings in the offering circular of corporate bonds and had no significant matters which could influence the Company's operation and debt paying ability.

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

³ SHARE OPTION INCENTIVE SCHEME OF SINOPEC CORP.'S SUBSIDIARY, SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED (SHANGHAI PETRO), DURING THE REPORTING PERIOD

Pursuant to the requirements of the Hong Kong Listing Rules, the resolution relating to the Shanghai Petro A Share Option Incentive Scheme (Draft) was considered and passed at the 18th meeting of the fifth session of the Board of Directors and the first extraordinary general meeting of Sinopec Corp. for 2014. The Scheme came into effect on 23 December 2014 with a validity period of 10 years. The expiry date of the Scheme is 22 December 2024. Under the Scheme, the total number of underlying shares to be granted shall neither exceed 10% of the total share capital of Shanghai Petro (10,800 million shares) nor exceed 10% of the total A share capital of Shanghai Petro (7,305 million shares). As of 20 March 2019, there is no exercisable outstanding share options according to the Scheme. As of 20 March 2019, the number of the underlying shares of the share options to be granted by Shanghai Petro to the participants was 691,740,000 A shares, which represents 6.4% of the total share capital of Shanghai Petro (10,823,813,500 shares). The vesting period for each grant under the Scheme shall be no less than two years.

(1) Summary of the Scheme

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

(2) Information on the Initial Grant of the Share Option of Shanghai Petro's A share (Share Option)

(i) Initial Grant of the Share Option:

Grant Date: 6 January 2015

Number of Participants:

214 persons

Number of Share Options Granted:

38,760,000

(ii) The exercise condition of the first exercise period of share option under the first grant

Exercise date: 29 August 2017

Number of exercisable Share Options:

14,212,500 options

Number of lapsed Share Options:

5,228,900 options

Number of exercised Share Options:

14,176,600 options

Date of completion of the registration
for newly increased shares:

27 September 2017

Number of participants who exercised
the option: 199

Exercise price: RMB 3.85/share

(iii) The exercise condition of the second exercise period of Share Option under the first grant

Exercise date: 12 January 2018

Number of exercisable Share Options:

9,636,900 options

Number of lapsed Share Options:

520,700 options

Number of exercised Share Options:

9,636,900 options

Date of completion of the registration
for newly increased shares:

14 February 2018

Number of participants who exercised
the option: 185

Exercise price: RMB 3.85/share

(iv) The exercise condition of the third exercise period of Share Option under the first grant

Since the exercise conditions were not satisfied, the total amount of Share Options that have lapsed during the reporting period is: 8,946,900

(v) Outstanding Share Options held by directors, chief executive and substantial shareholder of Shanghai Petro during the reporting period

At the beginning of the Reporting Period, a total number of 966,000 outstanding Share Options which were not exercised were held by the directors of Shanghai Petro Mr. Gao Jinping, Mr. Jin Qiang, Mr. Guo Xiaojun and Vice President of Shanghai Petro Mr. Jin Wenmin.

During the reporting period, Vice President of Shanghai Petro Mr. Jin Wenmin was appointed as Director of Shanghai Petro on 13 June 2018. During the reporting period, a total of 483,000 Share Options had been exercised by Director of Shanghai Petro Mr. Gao Jinping, Mr. Jin Qiang, Mr Guo Xiaojun and Mr. Jin Wenmin during the second exercise period.

During the reporting period, since Director of Shanghai Petro Mr. Gao Jinping resigned, the 150,000 A share options granted to him which were not exercised had lapsed. During the reporting period, since the third exercise conditions were not met, a total of 333,000 Share Options held by Director of Shanghai Petro Mr. Jin Qiang, Mr. Guo Xiaojun and Mr. Jin Wenmin had lapsed.

There is no outstanding Share Options which were not exercised held by directors, chief executives and substantial shareholders of Shanghai Petro as of the end of the Reporting Period.

(vi) Outstanding Share Options granted to employees other than the persons mentioned in item (v)

At the beginning of the reporting period, a total number of 18,138,500 outstanding Share Options which were not exercised were held by Shanghai Petro' key business personnel.

During the reporting period, a total number of 9,153,900 outstanding Share Options had been exercised by Shanghai Petro's key business personnel during the second exercise period.

During the reporting period, a total of 8,984,600 Share Options granted to Shanghai Petro's key business personnel had lapsed due to participants' resignations and un-satisfaction of the exercise conditions for the third exercise period etc.

At the end of the Reporting Period, there is no outstanding Shares Options which were not exercisable held by Shanghai Petro's key business personnel.

(vii) Exercise price of the initial grant and the adjustment to the exercise price

According to the pricing principle disclosed by Shanghai Petro on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalisation of capital reserves, bonus issue, subdivision or reduction of shares or allotment of shares during the validity period, the exercise price shall be adjusted according to the Scheme). On 15 June 2016, the 2015 annual profit distribution plan was considered and passed at Shanghai Petro's 2015 annual general meeting, whereby a cash dividend of RMB1.00 was paid for each 10 shares. On 15 June 2017, the 2016 annual profit distribution plan was considered and passed at Shanghai Petro's 2016 annual general meeting, whereby a cash dividend of RMB2.50 was paid for each 10 shares and the exercise price was adjusted to RMB3.85 per share accordingly. On 13 June 2018, the 2017 annual profit distribution plan was considered and passed at Shanghai Petro's 2017 annual general meeting, whereby a cash dividend of RMB3.00 was paid for each 10 shares and the exercise price was adjusted to RMB3.55 per share accordingly.

(viii) Validity of and exercise arrangements for the initial grant

The validity period of the Share Options shall be five years commencing from the grant date, but is subject to exercise arrangement for the Scheme. For the details of the exercise arrangement, please refer to the section of "Validity Period" on Page 32 of Sinopec Corp.'s 2015 annual report published on 29 March 2016.

(ix) The progress of share option incentive up to the date of Shanghai Petro's 2018 annual report

None

Save as disclosed above and in previous relevant announcements, during the reporting period, Shanghai Petro granted no Share Option in accordance with the Scheme, none of the Share Options was exercised by the Participant and none of the share option was cancelled or lapsed.

4 PERFORMANCE OF THE UNDERTAKINGS BY CHINA PETROCHEMICAL CORPORATION

Background	Type of Undertaking	Party	Contents	Term for performance	Whether bears deadline or not	Whether strictly performed or not
Undertakings related to Initial Public Offerings (IPOs)	IPOs	China Petrochemical Corporation	<p>1 Compliance with the connected transaction agreements;</p> <p>Solving the issues regarding the legality of land-use rights</p> <p>2 certificates and property ownership rights certificates within a specified period of time;</p> <p>Implementation of the Reorganisation Agreement (please refer to the definition of</p> <p>3 Reorganisation Agreement in the H share prospectus of Sinopec Corp.);</p> <p>Granting licenses for</p> <p>4 intellectual property rights;</p> <p>5 Avoiding competition within the same industry;</p> <p>Abandonment of</p> <p>6 business competition and conflicts of interest with Sinopec Corp.</p>	From 22 June 2001	No	Yes
Other undertakings	Other	China Petrochemical Corporation	<p>Given that China Petrochemical Corporation engages in the same or similar businesses as Sinopec Corp. with regard to the exploration and production of overseas petroleum and natural gas, China Petrochemical Corporation hereby grants a 10-year option to Sinopec Corp. with the following provisions: (i) after a thorough analysis</p>	Within 10 years after 29 April 2014 or the date when China Petrochemical Corporation acquires the assets	Yes	Yes

from political, economic and other perspectives, Sinopec Corp. is entitled to require China Petrochemical Corporation to sell its overseas oil and gas assets owned as of the date of the undertaking and still in its possession upon Sinopec Corp.'s exercise of the option to Sinopec Corp.;

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

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

5 SIGNIFICANT EQUITY INVESTMENT

On 9 July 2018, Sinopec Corp. entered into the Articles of Association (Sinopec Capital AOA) of Sinopec Capital Co., Ltd. (Sinopec Capital) with China Petrochemical Corporation. Pursuant to Sinopec Capital AOA, Sinopec Corp. proposed to establish Sinopec Capital with China Petrochemical Corporation with a registered capital of RMB 10 billion, of which, Sinopec Corp. will subscribe capital contribution of RMB 4.9 billion by cash, representing 49% of the registered capital of Sinopec Capital; and China Petrochemical Corporation will subscribe capital contribution of RMB 5.1 billion by cash, representing 51% of the registered capital of Sinopec Capital. Sinopec Corp. and China Petrochemical Corporation shall pay all their respective capital contribution to Sinopec Capital no later than 31 December 2020. Upon the establishment of Sinopec Capital, its investments will focus on strategic emerging industries, including new energy, new material, energy conservation and environmental protection, and intelligence manufacturing in relation to the industry chain. In respect of the investment projects which are related to Sinopec Corp.'s principal business, Sinopec Corp. will have the right of first refusal to acquire such projects. The formation of Sinopec Capital will speed up investments in emerging industries and help support Sinopec Corp.'s own business development and industrial chain upgrade. It will play an important role in achieving comprehensive, sustainable and high-quality development of Sinopec Corp.

Pursuant to Chapter 14A of the Hong Kong Listing Rules, China Petrochemical Corporation, the controlling shareholder of Sinopec Corp., is a connected person of the Company. Therefore, the transaction between Sinopec Corp. and China Petrochemical Corporation constituted a connected transaction under the Hong Kong Listing Rules.

For details of the transaction, please refer to the announcements published in China Securities Journal, Shanghai Securities, News Securities Times and the websites of Shanghai Stock Exchange on 11 July 2018 and on the website of Hong Kong Stock Exchange on 10 July 2018.

6 SIGNIFICANT ASSETS AND EQUITY SALE

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

7 MATERIAL GUARANTEE CONTRACTS AND THEIR PERFORMANCE

Unit: RMB million

Major external guarantees (excluding guarantees for controlled subsidiaries)

Guarantor	Relationship with the Company	Name of guaranteed company	Amount	Transaction date (date of signing)	Period of guarantee	Type	Whether completed or not	Whether overdue or not	Amount of overdue guarantee	Count of guarantee
Sinopec Corp.	The listed company itself	Zhongtian Hechuang Energy Co., Ltd	12,168	25-May-16	25 May 2016 -31 December 2023 (the mature date is estimated)	Joint liability guarantee	No	No	—	No
Sinopec Corp.	The listed company itself	Zhong An United Coal Chemical Co., Ltd.	5,033	18-Apr-18	18 April 2018-31 December 2031	Joint liability guarantee	No	No	—	No
Sinopec Corp.	The listed company itself	Yanbu Aramco Sinopec Refining Company(YASREF) Limited	No specific amount agreed, guarantee on contract performance	31-Dec-14	30 years from the date YASRFE requires supply of hydrogen from Air Liquide Arabia LLC.	Joint liability guarantee	No	No	—	No
SSI	Controlled subsidiary	New Bright International Development Ltd./ Sonangol E.P./SSI15	7,197			Joint liability guarantee	No	No	—	Yes

Total amount of guarantees provided during the reporting period*2

Total amount of guarantees outstanding at the end of reporting period*2 (A)

Guarantees by the Company to the controlled subsidiaries

Total amount of guarantee provided to controlled subsidiaries during the reporting period

Total amount of guarantee for controlled subsidiaries outstanding at the end of the reporting period (B)

Total amount of guarantees for the Company (including those provided for controlled subsidiaries)

Total amount of guarantees(A+B)

The proportion of the total amount of guarantees to the Sinopec Corp.'s net assets

Guarantees provided for shareholder, de facto controller and its related parties (C)

Amount of debt guarantees provided directly or indirectly to the companies with liabilities to assets ratio over 70% (D)

The amount of guarantees in excess of 50% of the net assets (E)

Total amount of the above three guarantee items (C+D+E)

Statement of guarantee undue that might be involved in any joint and several liabilities

Statement of guarantee status

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

The amount of guarantees provided during the reporting period and the outstanding balance of guarantees amount at the end of the reporting period include the guarantees provided by the controlled subsidiaries to external parties.

*2: The amount of the guarantees provided by these subsidiaries is derived from multiplying the guarantees provided by Sinopec Corp.'s subsidiaries by the percentage of shareholding of Sinopec Corp. in such subsidiaries.

SPECIFIC STATEMENTS AND INDEPENDENT OPINIONS FROM INDEPENDENT NON-EXECUTIVE DIRECTORS REGARDING EXTERNAL GUARANTEES PROVIDED BY THE COMPANY DURING AND BY THE END OF 2018:

We, as independent directors of Sinopec Corp., hereby make the following statements after conducting a thorough check of external guarantees provided by the Company accumulated up to and during 2018 in accordance with the requirements of the domestic regulatory authorities:

The external guarantees prior to 2018 had been disclosed in previous annual report. The aggregate balance of external guarantees provided by Sinopec Corp. for the year 2018 was RMB 33.11 billion, accounting for approximately 4.61% of the Company's net assets.

We hereby present the following opinions:

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

9 SIGNIFICANT LITIGATION, ARBITRATION RELATING TO THE COMPANY

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

10 INSOLVENCY AND RESTRUCTURING

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

11 OTHER MATERIAL CONTRACTS

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

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

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

13 TRUSTEESHIP, CONTRACTING AND LEASES

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

14 ENTRUSTED ASSET MANAGEMENT AND ENTRUSTED LOANS

(1) Entrusted Asset Management

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

(2) Entrusted loans Unit: RMB billion

Categories	Source of fund	Amount	Outstanding Balance	Overdue and uncollected amount
Used for project construction.	Self-owned fund	0.1244	0.5744	None
Used for working capital	Self-owned fund	0.154	0.381	None

(3) Other asset management and derivative investment

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

¹⁵ DEPOSITS AT SINOPEC FINANCE CO., LTD. AND SINOPEC CENTURY BRIGHT CAPITAL INVESTMENT, LTD.

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

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

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

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

Not applicable

¹⁷ STRUCTURED ENTITY CONTROLLED BY THE COMPANY

None

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

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

¹⁹ ENVIRONMENTAL PROTECTION SOLUTIONS OF COMPANIES AND THEIR SUBSIDIARIES AS MAJOR POLLUTANT DISCHARGING COMPANIES RECOGNIZED BY ENVIRONMENTAL PROTECTION DEPARTMENTS

In 2018, some subsidiaries of Sinopec Corp. which are listed as major pollutant discharge units have disclosed environmental information as required by the relevant authorities and local government. The details of such information was published on the local government website. Sinopec Corp. strictly implemented the new standards in refining and petrochemical industry, completed the treatment of sewage and flue gas, and actively conducted the comprehensive treatment of VOCs. For details, please refer to the Company's Communication on Progress for

Sustainable Development. Pollution prevention and control facilities remained in effective and stable operation. The Company further regulated environmental management of construction projects, enhanced assessment, and implemented “three-simultaneity” management (environmental facilities shall be designed, constructed and put into operation simultaneously with the main construction). All of the newly-built projects have obtained approvals from the environment authorities. Sinopec Corp. strictly complying with relevant national requirements on environment emergency plan management and continually improves the emergency plans for environmental emergencies and heavy pollution weather. According to the national pollution permit and self-monitoring technology guidelines in relevant industries, we modified the self-monitoring plan, and implemented new national requirements of sewage, flue gas and noise monitoring, and disclosed the environmental results. For other subsidiaries that are not listed as major pollutant discharge units, the Company also completed relevant environmental protection formalities in accordance with the national and local requirements, and implemented relevant environmental protection measures. According to the requirements of national and local ecological environment departments, these companies do not need to disclose relevant information.

20 POVERTY ALLEVIATION PROGRAM LAUNCHED BY THE COMPANY

(1) Targeted Poverty Alleviation Plan

The Company actively fulfilled our social responsibilities and strictly followed the fundamental principles of poverty alleviation and elimination. We focused on poverty alleviation in terms of industry, consumption, employment and education, so as to ensure to stably lift poor household out of poverty, increase income of poor household and orderly carry out rural revival strategy.

(2) Overview on 2018 Targeted Poverty Alleviations

In 2018, the Company invested nearly RMB 0.23 billion in Targeted Poverty Alleviation, including RMB 108.41 million invested in 50 targeted poverty alleviation programs in Yingshang county, Yuexi county, Fenghuang county, Luxi county, Yuepuhu county and Dongxiang county, mainly including rural industry development, village tourism development, labor output trainings and education assistance. We lifted 12,250 registered people out of poverty and funded the education of 206 students.

(3)2018 Targeted Poverty Alleviation Work Statistics

Unit: RMB million

Index	Data
I. Overview	
1. Funds	228.47
2. Number of people lifted out of poverty	32,250
II. Input breakdowns	
1. Poverty elimination through industrial development	
1.1 Categories of poverty alleviation programs through industrial development	☑ Poverty alleviation through agriculture and forestry development ☑ Poverty alleviation through tourism development ☑ Poverty alleviation through e-commerce ☑ Poverty alleviation through assets income ☐ Poverty alleviation through science and technology development ☑ Others
1.2 Number of poverty alleviation programs	1,500
1.3 Input in poverty alleviation projects through industrial development	110
2. Poverty elimination through provision of employment	
2.1 Input in professional skill training	4.09
2.2 Participants of professional skill trainings (person time)	3,149
3. Poverty elimination through relocation	
3.1 Number of relocated people	545
3.2 Input in relocation	6
4. Poverty elimination through education	
4.1 Input in students funding	3.5
4.2 Number of students who received funding assistance	1,374
4.3 Input in education resources in poverty-stricken areas	22.33
5. Poverty alleviation through healthcare	
5.1 Input in medical and health care resources in poverty-stricken areas	2.31
6. Emergency relief	
6.1 Input in emergency relief	8.1
6.2 Number of people get assistance	6,198
7. Other input	18.25
III. Consumption assistance	
1. Procurement Agriculture products from impoverish areas	17.7
2. Assistance on sales of agriculture products from impoverish areas	146

Note 1: The table was prepared in accordance with the 2018 requirements of the State Council Leading Group Office of Poverty Alleviation and Development.

Note 2: Fund for Poverty Alleviation Work consists of our own funds and financing from other parties introduced by the Company.

(4) Subsequent targeted poverty alleviation plan

In 2019, the Company will further strengthen poverty alleviation key-problem tackling work, continue to insist on targeted poverty alleviation and targeted lifting of poor people out of poverty, insist on combination of “blood transfusion” and “haematogenesis”, focus on tackling of key problems of poor regions, exert the advantages of the enterprise, and focus on poverty alleviation in terms of industry; attach importance to poverty alleviation in terms of employment, and create jobs; deepen poverty alleviation in terms of education, and strengthen support to poor students; strengthen cooperation with China Foundation for Poverty Alleviation, and motivate social strength to participate in poverty alleviation; optimize poverty alleviation in terms of medical treatment, and provide high quality medical treatment support to the people in poor regions; strengthen poverty alleviation in terms of consumption, cooperate with Social Participation in Poverty Alleviation and Development of China, promote high quality agriculture products of poor counties to the whole country and make efforts to optimize targeted poverty alleviation work.

21 OTHER EVENT

Sinopec Corp. published voluntary announcement and progress update announcements in relation to China International United Petroleum and Chemical Company Limited. For details, please refer to the announcements published in China Securities Journal, Shanghai Securities News Securities Times and the website of the Shanghai Stock Exchange on 28 December 2018, 5 January 2019 and 26 January 2019 and on the website of Hong Kong Stock Exchange on 27 December 2018, 4 January 2019 and 25 January 2019.

CONNECTED TRANSACTIONS

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

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

- (1) The Company and China Petrochemical Corporation will mutually supply ancillary services for products, production and construction services (Mutual Supply Agreement)
- (2) China Petrochemical Corporation will provide trademarks, patents and computer software to the Company for use free of charge
- (3) China Petrochemical Corporation will provide cultural and educational, hygienic and community services to the Company (Cultural, Educational, Hygiene and Auxiliary Services Agreement)
- (4) China Petrochemical Corporation will provide leasing services for lands and certain properties to the Company
- (5) China Petrochemical Corporation will provide comprehensive insurance to the Company
- (6) China Petrochemical Corporation will provide shareholders' loans to the Company; and
- (7) The Company will provide franchise licenses for service stations to China Petrochemical Corporation.

On 24 August 2018, Sinopec Corp. and China Petrochemical Corporation entered into a supplemental agreement of the continuing connected transactions and the Land Use Rights Leasing Agreement Amendment Memo, pursuant to which the scope of services of the Mutual Supply Agreement and the Cultural, Educational, Hygienic and Auxiliary Services Agreement were adjusted and the term of the Mutual Supply Agreement and the Cultural, Educational, Hygienic and Auxiliary Services Agreement was extended from 1 January 2019 to 31 December 2021; the term of the Properties Leasing Agreement was extended to 31 December 2021 and the term of Intellectual Property Licensing Agreements was extended to 31 December 2029. The area and rent in the Land Use Rights Leasing Agreement were also adjusted. The resolution relating to continuing connected transactions for the three years from 2019 to 2021 was approved at the first extraordinary general meeting of the Company for 2018 held on 23 October 2018. For details of the above continuing connected transactions, please refer to relevant announcements published on 27 August 2018 in the China Securities Journal, the Shanghai Securities News and the Securities Times and on the website of the Shanghai Stock Exchange and on the website of the Hong Kong Stock Exchange dated 26 August 2018. The capitalised terms used in this section shall have the same meaning as that used in the above-mentioned announcements.

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

Pursuant to the Hong Kong Listing Rules and the Shanghai Listing Rules, the continuing connected transactions between the Company and Sinopec Group are subject to disclosure, independent non-executive directors' approval and/or independent shareholders' approval (if needed) based on the nature and the value of the transactions. Sinopec Corp. has fully complied with the above requirements in relation to the continuing connected transaction between the Company and Sinopec Group.

The aggregated amount of the continuing connected transactions for 2018 of the Company is in compliance with the relevant requirements of the Hong Kong Listing Rules and the Shanghai Listing Rules. For performance details of connected transaction agreements, please refer to Item 3 below.

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

Pursuant to the above-mentioned agreements on continuing connected transactions, the aggregate amount of the continuing connected transactions of the Company during the reporting period was RMB 417.201 billion. Among which, purchases expenses amounted to RMB 267.505 billion, representing 9.04% of the total amount of this type of transaction for the reporting period, including purchases of products and services (procurement, storage and transportation, exploration and development services, and production-related services) of RMB 251.444 billion, purchases of auxiliary and community services of RMB 6.664 billion, payment of property rent of RMB 522 million, payment of land use right of RMB 7.765 billion, and the interest expenses amounted to RMB 1.11 billion. The sales income amounted to RMB 149.697 billion, representing 4.91% of the total amount of this type of transaction for the reporting period, including RMB 148.779 billion for sales of products and services, RMB 69 million for agency commission income, and RMB 848 million for interest income.

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

Principle of pricing for the continuing connected transactions:

(a) The government-prescribed price will apply;

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

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

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

For details of the pricing principle, please refer to relevant announcements published on 27 August 2018 in the China Securities Journal, the Shanghai Securities News and the Securities Times and on the website of the Shanghai Stock Exchange and on the website of the Hong Kong Stock Exchange on 26 August 2018.

Decision-making procedures:

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

Related party transactions with the Sinopec Group that occurred during the year, as set out in Note 37 to the financial statements prepared under the IFRS in this annual report, also fall under the definition of connected transactions under Chapter 14A of the Hong Kong Listing Rules.

The above-mentioned connected transactions between the Company and Sinopec Group in 2018 were approved at the 5th meeting of the seventh session of the Board and have complied with the requirements under Chapter 14A of the Hong Kong Listing Rules.

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

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

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

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

i normal commercial terms; or

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

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

4 OTHER SIGNIFICANT CONNECTED TRANSACTIONS OCCURED THIS YEAR

For details, please refer to item 5” significant equity investment” in section “Significant Events”.

5 FUNDS PROVIDED BETWEEN RELATED PARTIES

Unit: RMB million

Related Parties	Relations	Funds to related parties			Funds from related parties		
		Balance at the beginning of the year	Amount incurred	Balance at the end of the year	Balance at the beginning of the year	Amount incurred	Balance at the end of the year
Sinopec Group	Parent company and affiliated companies*	24,038	5,377	29,415	28,268	1,964	30,232
Other related parties	Associates and joint ventures	1,678	(247)	1,431	38	295	333
Total		25,716	5,130	30,846	28,306	2,259	30,565
Reason for provision of funds between related parties		Loans and other accounts receivable and payable					
Impacts on the Company		No material negative impact					

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

CORPORATE GOVERNANCE

1 IMPROVEMENTS IN CORPORATE GOVERNANCE DURING THE REPORTING PERIOD

During the Reporting Period, Sinopec Corp. was in full compliance with the Articles of Association as well as domestic and overseas laws and regulations and has not received any regulatory sanction imposed by securities regulatory authorities. Sinopec Corp. further improved corporate governance structure through completion of the re-election of the Board of Directors, Board of Supervisors, and the appointment of senior management, as well as the appointment of each Board Committee and establishment of the Nomination Committee under the Board. We amended the Articles of Association, Rules and Procedures of the Board Meetings and Internal Control Procedures, and formulated Terms of References of Nomination Committee. Pursuant to Article of Association and other regulations, we further improved the regulations in relation to the Party's participation in the corporate governance of the Company, which promoted the scientific decision-making procedures. The Company actively implemented "the year of party building quality" event to drive the high-quality development of the Company. The independent directors have played an active and good role with diligence in performing their duties. The investor relations work has been further refined, and the required information was disclosed in time, which improved the transparency of the Company and were positively recognised by the capital market. The Company's active performance of its social responsibilities has achieved good results.

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

2 GENERAL MEETINGS

During the reporting period, Sinopec Corp. convened the 2017 annual general meeting on 15 May 2018, and 2018 first extraordinary general meeting on 23 October 2018 in Beijing, China in accordance with the required procedures of noticing, convening and holding procedures pursuant to the relevant laws and regulations and the Articles of Association. For meeting details, please refer to the poll results announcements published in China Securities Journal, Shanghai Securities News and Securities Times and on the websites of Hong Kong Stock Exchange after the general meetings.

3 EQUITY INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT

As of 31 December 2018, apart from 13,000 A shares of Sinopec Corp. held by Director, Senior Vice President Mr. Ling Yiqun, none of the directors, supervisors or other senior management of Sinopec Corp. held any shares of Sinopec Corp.

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

4 PERFORMANCE OF THE INDEPENDENT DIRECTORS

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

Pursuant to requirements of securities regulatory authority of China, independent non-executive directors of Sinopec Corp. reviewed the performance of the senior managers of Sinopec Corp. who held concurrent positions as senior managers in China Petrochemical Corporation and published independent opinions as follows: “The President Mr. Ma Yongsheng, Senior Vice President Mr. Ling Yiqun and Mr. Liu Zhongyun, each of whom concurrently held position as deputy general manager of China Petrochemical Corporation, have obtained the exemptions for holding concurrent position from CSRC. During the reporting period, Mr. Ma Yongsheng, Mr. Ling Yiqun and Mr. Liu Zhongyun devoted sufficient time and energy to fulfill their duties with diligence and due care. They protected the interests of the Company and minority shareholders effectively and didn’t harm the legitimate interests of Sinopec Corp. and minority shareholders due to holding concurrent position in China Petrochemical Corporation.”

5 COMPANY'S INDEPENDENCE FROM CONTROLLING SHAREHOLDER

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

6 COMPETITION BETWEEN SINOPEC CORP AND ITS CONTROLLING SHAREHOLDER

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

7 IMPROVEMENT AND IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

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

8 SENIOR MANAGEMENT APPRAISAL AND INCENTIVE SCHEMES

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

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

(1) Compliance with the Corporate Governance Code

Sinopec Corp. complied with all code provisions set out in the Corporate Governance Code during the reporting period.

A Board of Directors

A.1 Board of Directors

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

The meeting of the Board is held at least once a quarter. The Board will usually communicate the time and proposals of the Board meeting 14 days before convening of the meeting. The relevant documents and materials for b. Board meetings are usually sent to each Director 10 days in advance. In 2018, Sinopec Corp. held seven Board meetings. For details about each Director's attendance at the Board meetings and the general meetings, please refer to the section "Report of the Board of Directors" in this annual report.

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

The Board has reviewed and evaluated its performance in 2018 and is of the view that the Board made decisions in compliance with domestic and overseas regulatory authorities' requirements and the Company's internal rules; that d. the Board have considered the suggestions from the Party organisation, Board of Supervisors and Management during its decision making process; and that the Board safeguarded the rights and interests of Sinopec Corp. and its shareholders.

e. The Secretary to the Board assists the Directors in handling the daily work of the Board, continuously informs the Directors of any regulations, policies or other requirements of domestic or overseas regulatory authorities in relation to corporate governance and ensures that the Directors comply with domestic and overseas laws and regulations

when performing their duties and responsibilities. Sinopec Corp. has purchased liability insurance for all Directors to minimise their risks that might incur from the performance of their duties.

A.2 Chairman and President

The Chairman of the Board is elected by a majority vote of all Directors, and the President is nominated and appointed by the Board. The main duties and responsibilities of the Chairman and the President are clearly distinguished from each other, and the scope of their respective duties and responsibilities are set out in the Articles of Association. Mr. Dai Houliang serves as Chairman of the Board and Mr. Ma Yongsheng serves as President of Sinopec Corp.

The Chairman of the Board places great emphasis on communication with the Independent Non-executive Directors. The Chairman independently held three meetings with the Independent Non-executive Directors in respect of development strategy, corporate governance and operational management, etc. of the Company.

The Chairman encourages open and active discussions. Directors actively and deeply participated in the discussions of significant decisions made by the Board in the Board meetings.

A.3 Board composition

For details of the composition of the Board of Directors, please refer to the section “Directors, Supervisors, Other Senior Management and Employees” of this annual report. The Board has a fairly good diversity. The Executive a. Directors and Non-executive Director of Sinopec Corp. have petroleum and petrochemical technical background and/or extensive management experience in large-scale enterprises. The Independent Non-executive Directors are with professional backgrounds in economics, accounting and finance.

Sinopec Corp. has received from each of the Independent Non-executive directors a letter of confirmation for 2018 b. regarding their compliance with relevant independence requirements set out in Rule 3.13 of the Hong Kong Listing Rules. Sinopec Corp. considers that each of the Independent Non-executive Directors is independent.

A.4 Appointment, re-election and dismissal

The term of each session of the Directors of Sinopec Corp. is three years, and the consecutive term of office of an a. Independent Non-executive Director cannot exceed six years. For details about the tenure of each director, please refer to the section “Directors, Supervisors, Other Senior Management and Employees”

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

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

A.5 Nomination Committee

As approved at the annual general meeting for the year 2017, the Board of Sinopec Corp. established a. Nomination Committee, consisting of Chairman of the Board Mr. Dai Houliang, who served as the Chairman, and Independent Non-Executive Directors Mr. Tang Min and Mr. Ng, Kar Ling Johnny, who served as members. The major responsibilities of Nomination Committee are to provide suggestion on Board’s size and composition, as well as the selecting standards, procedures and candidates for directors and senior management.

The Board establishes the Board Diversity Policy which stipulates that the members of the Board shall be nominated and appointed based on the skills and experience for the overall optimum operation of the Board, while taking into b. account the targets and requirements of the board diversity. When deciding the composition of the Board, Sinopec Corp. shall consider several factors in relation to the diversity of the Board, including but not limited to profession experience, skills, knowledge, length of service, regions, cultural and educational backgrounds, gender and age.

The members of the Nomination Committee can engage professions when performing its duties. Reasonable costs arising from such consultations are borne by Sinopec Corp. In the meantime, the Nomination Committee has also c. appointed consultants member and can require such member to provide advice. The working expenses of the Remuneration Committee are included in the budget of Sinopec Corp.

during the reporting period, the Nomination Committee held two meetings (please refer to “Meetings held by the d. special committees of the Board” under the section “Report of the Board of Directors” in this annual report). The review opinions were issued at each meeting and submitted to the Board.

A.6 Responsibility of Directors

a. All Non-executive Directors have the same duties and powers as the Executive Directors. In addition, the Independent Non-executive Directors are entitled to certain specific powers. The Articles of Association and the Rules of Procedure of Board Meetings clearly prescribe the duties and powers of Directors, Non-executive Directors

including Independent Non-executive Directors, which are published on the Sinopec Corp.'s website at <http://www.sinopec.com/listco/>.

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

Each of the Directors confirmed that he has complied with the Model Code for Securities and Transactions by Directors of Listed Companies during the reporting period. In addition, Sinopec Corp. formulated the Rules

c. Governing Shares Held by Company Directors, Supervisors and Senior Managers and Changes in Shares and the Model Code of Securities Transactions by Company Employees to regulate the purchase and sale of Sinopec Corp.'s securities by relevant personnel.

Sinopec Corp. organised and arranged training sessions for Directors and paid the relevant fees as well as making d. relevant records. The Directors actively participated in the trainings and paid more attention on continuing professional development program to ensure that their contribution to the Board remains informed and relevant.

A.7 Provision of and access to information

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

Each Director can obtain all related information in a comprehensive and timely manner. The Secretary to the Board is responsible for organising and preparing the materials for the Board meetings, including preparation of explanations for each proposal to ensure fully understanding by the Directors. The

- b. Management is responsible for providing the Directors with necessary information and materials. The Director may require the Management, or require, via the Management, relevant departments to provide necessary information or explanations. The Directors may seek advices from professional consultants when necessary.

B Remuneration and Appraisal Committee

Remuneration and Appraisal Committee (Remuneration Committee) consists of Independent Non-executive Director Mr. Fan Gang, who serves as the Chairman, and Non-executive Director Mr. Li Yunpeng and Independent Non-executive Director Mr. Ng, Kar Ling Johnny, who serve as the members of the Remuneration Committee. The a. Remuneration Committee is responsible for reviewing the implementation of the annual remuneration plans for Directors, Supervisors and other senior Management as approved at the general meeting of the shareholders, and report to the Board.

The Remuneration Committee always consults the Chairman of the Board and the President about the remuneration b. plans for other Executive Directors. After the Remuneration Committee's review, it is of the view that all the Executive Directors of Sinopec Corp. have fulfilled the duty clauses in their service contracts in 2018.

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

d. During the reporting period, the Remuneration Committee held one meeting (please refer to "Meetings held by the special committees of the Board" under the section of "Report of the Board of Directors" in this annual report).

C Accountability and Auditing

C.1 Financial reporting

Directors are responsible for supervising the preparation of accounts for each fiscal period to ensure that the accounts truly and fairly reflect the condition of the business, the performance and the cash flow of the Company a. during the period. The Board approved the Financial Report for 2018 and warranted that the annual report contained no false representations, no material omissions or misleading statements and jointly and severally accepted full responsibility for the authenticity, accuracy and completeness of the content.

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

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

materials.

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

C.2 Internal Control and Risk Management

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

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

Sinopec Corp. has formulated and implemented its information disclosure policy and insider information registration policy. The Company regularly evaluates the policy implementation and makes disclosure in accordance with relevant regulations. Please refer to the website of Sinopec Corp. (<http://www.sinopec.com/listco/>) for the details of the information disclosure policy.

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

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

C.3 Audit Committee

The Board has established an Audit Committee. The Audit Committee consists of Independent Non-executive Director Mr. Ng, Kar Ling Johnny, who serves as the Chairman, and Independent Non-executive Director Mr. Tang Min and Independent Non-executive Director Mr. Cai Hongbin, who serve as members. As verified, none of them has served as a partner or a former partner in our current auditing firm.

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

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

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

D Delegation of power by the Board

The Board and the Management have clear duties and responsibilities in written rules. The Articles of Association and the Rules of Procedure for the General Meetings of Shareholders and the Rules of Procedure of the Board

a. Meetings clearly set forth the scope of duties, powers and delegation of power of the Board and Management, which are published on the website of Sinopec Corp. at <http://www.sinopec.com/listco/>.

In addition to the Audit Committee, the Remuneration Committee and Nomination Committee, the Board had established the Strategy Committee and the Social Responsibility Management Committee. The Strategy Committee is responsible for overseeing long-term development strategies and significant investment decisions of the Company. The 7th session Strategy Committee consists of six directors, including Chairman of the Board Mr. Dai Houliang, who serves as Chairman, as well as Executive Director Mr. Ma Yongsheng, Mr. Ling Yiqun, Mr. Liu

b. Zhongyun and Independent Non-executive Directors Mr. Fan Gang and Mr. Cai Hongbin, who serve as members. The Social Responsibility Management is responsible for preparing policies, governance, strategies and plans for social responsibility management of the Company. The Social Responsibility Management Committee consists of three Directors, including Chairman of the Board Mr. Dai Houliang, who serves as Chairman, Independent Non-executive Directors Mr. Tang Min and Mr. Fan Gang, who serve as members.

Each Board Committee is required to report its decisions and recommendations to the Board and has formulated its

c. terms of references. The terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are published on the website of Sinopec Corp. at <http://www.sinopec.com/listco/>.

E Investor Relations

In order to further enhance corporate governance and satisfy business expansion needs of the Company, as approved at the annual general meeting of shareholders for the year 2017, Sinopec Corp. amends the Articles of Association and its appendix Rules and Procedures of Board Meetings. For more details, please refer to the announcement

a. published in the China Securities Journal, the Shanghai Securities News and the Securities Times by Sinopec Corp. as well as the website of Shanghai Stock Exchange on 16 May 2018 and the announcement published on the website of the Hong Kong Stock Exchange on 15 May 2018.

Sinopec Corp. pays high attention to investor relations. The team led by management conduct road shows every year to answer questions on subjects of concern to investors, such as introduction of the development strategies and the production and business performance of the Company. Sinopec Corp. established a department responsible for

b. communicating with investors. In compliance with regulatory provisions, Sinopec Corp. enhanced communication with investors by holding meetings with institutional investors, setting up an investor hotline and communicating through internet platform.

During the reporting period, separate resolution was proposed for each substantially separate issue at the general

c. meetings. All resolutions were voted by poll to ensure the interests of all shareholders. Notices of the general meeting were dispatched to shareholders 45 days (excluding the date of the general meeting) in advance.

The Chairman of the Board hosted the annual general meeting for the year 2017 and the first extraordinary general

d. meeting for the year 2018. Some members of the Board and senior Management attended the meeting and communicated with the investors extensively.

According to relevant rules of Sinopec Corp., the Secretary to the Board is responsible for establishing an effective communication channel between Sinopec Corp. and its shareholders, for setting up special departments to

e. communicate with the shareholders and for passing the opinions and proposals of the shareholders to the Board and Management in a timely manner. Contact details of Sinopec Corp. can be found on the Investor Center page on Sinopec Corp's website.

FCompany Secretary

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

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

G Shareholders' rights

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

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

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

Sinopec Corp. established special organisation in charge of communication with shareholders and published relevant contact details to facilitate shareholders to make enquiries pursuant to Articles of Association.

(2) Auditors

The appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as Sinopec Corp.'s external auditors for 2018 and the authorisation of the Board to determine their remuneration were approved at Sinopec Corp.'s annual general meeting for the year 2017 on 15 May 2018. The audit fee for 2018 is RMB 47.58 million (including audit fee of internal control), which was approved at the 5th meeting of the seventh session of the Board. The annual financial statements have been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers. The Chinese certified accountants signing the report are Zhao Jianrong and Xu Xia from PricewaterhouseCoopers Zhong Tian LLP.

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

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

Except for their working relationships with Sinopec Corp., none of the Directors, Supervisors or other Senior Management has any financial, business or family relationship or any relationship in other material aspects with one another. For information about changes in share capital and shareholdings of substantial shareholders, please refer to page 6 to page 7; for information about meetings of the Board, please refer to page 52; for information about meeting held by Board Committees, please refer to page 54; for information about tenure of non-executive directors, please refer to page 69; for information about equity interests of Directors, Supervisors and other senior Management, please refer to page 45; for information about the biographies and annual remuneration of Directors, Supervisors and other senior Management, please refer to page 64 to page 78.

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present the directors' report for the year ended 31 December 2018 for shareholders' review.

1 MEETINGS OF THE BOARD

During this reporting period, Sinopec Corp. held seven (7) Board meetings. The details are as follows:

The 16th meeting of the sixth session of the Board was held by written resolution on 8 February 2018, whereby the (1) proposals in relation to the appointment of senior management of the Company and the revision of the internal control manual (version 2018) were approved at the meeting.

The 17th meeting of the sixth session of the Board was held by on site meeting and via video conference on 23 March 2018, whereby the proposals in relation to the following matters were approved: (i) the Work Report of the sixth session of the Board, (ii) the Work Report of the sixth Session of the Senior Management, (iii) Financial results and business performance of the Company for the year 2017(including a. provision for impairment for the year 2017; b. The connected transactions for the year 2017; c. Profit distribution plan for the year 2017; d. Audit costs for the year 2017; e. the report of Risk Assessment for Capital Deposits at Finance Company and Century (2)Bright Company), (iv) 2017 Communication on Progress for Sustainable Development of Sinopec Corp., (v) Financial Statements of Sinopec Corp. for the year 2017, (vi) Annual Report and form 20F of the Company for the year 2017, (vii) Internal control assessment report of Sinopec Corp. for the year 2017, (viii)Re-appointment of external auditors of Sinopec Corp. for the year of 2018 and to authorise the Board to determine their remunerations, (ix) Provision of Guarantee for Zhong An United Coal Chemical Co., Ltd. by Sinopec Corp. (x) the service contracts between Sinopec Corp. and the Directors of the seventh session of the Board (including emolument prov