SINOPEC CORP. 2017 INTERIM REPORT

(Stock Code A Share : 600028 ; H Share : 00386 ; ADR : SNP)

CONTENTS

This interim report contains forward-looking statements. All statements, other than statements of historical facts, that address business activities, events or developments that the Company expects or anticipates will or may occur in the future (including, but not limited to projections, targets, reserves and other estimates and business plans) are forward-looking statements. The actual results or developments of the Company may differ materially from these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 25 August 2017 and, unless otherwise required by the relevant regulatory authorities, undertakes no obligation to update these statements.

IMPORTANT NOTICE: THE BOARD OF DIRECTORS (BOARD) AND THE BOARD OF SUPERVISORS OF CHINA PETROLEUM & CHEMICAL CORPORATION (SINOPEC CORP.) AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT WARRANT THAT THERE ARE NO FALSE REPRESENTATIONS, MISLEADING STATEMENTS OR MATERIAL OMISSIONS CONTAINED IN THIS INTERIM REPORT, AND SEVERALLY AND JOINTLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS INTERIM REPORT. THERE IS NO OCCUPANCY OF NON-OPERATING FUNDS BY THE CONTROLLING SHAREHOLDERS OF SINOPEC CORP. MR. WANG YUPU, CHAIRMAN OF THE BOARD, MR. DAI HOULIANG, VICE CHAIRMAN AND PRESIDENT, AND MR. WANG DEHUA, CHIEF FINANCIAL OFFICER AND HEAD OF CORPORATE ACCOUNTING DEPARTMENT WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE INTERIM FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT. THE AUDIT COMMITTEE OF SINOPEC CORP. HAS REVIEWED THE INTERIM REPORT OF SINOPEC CORP. FOR THE PERIOD ENDED 30 JUNE 2017.

THE INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017 OF SINOPEC CORP. AND ITS SUBSIDIARIES, PREPARED IN ACCORDANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (ASBE) OF THE PEOPLES REPUBLIC OF CHINA (PRC), AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS), HAVE BEEN AUDITED BY PRICEWATERHOUSECOOPERS ZHONG TIAN LLP AND PRICEWATERHOUSECOOPERS CERTIFIED PUBLIC ACCOUNTANTS RESPECTIVELY, AND BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED OPINIONS ON THE INTERIM FINANCIAL STATEMENTS.

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 refining products, petrochemical products, coalchemical 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, developmentand application of technologies and information.

DEFINITIONS

In this interim report, unless the context otherwise requires, the following terms shall have the meaning set out below:
Sinopec Corp.: China Petroleum & Chemical Corporation;
The Company: Sinopec Corp.and its subsidiaries;
China Petrochemical Corporation: Our controlling shareholder, China Petrochemical Corporation;
Sinopec Group: China Petrochemical Corporation and its subsidiaries;
CSRC: China Securities Regulatory Commission;
Hong Kong Stock Exchange: The Stock Exchange of Hong Kong Limited;
Hong Kong Listing Rules: Rules governing the listing of securities on The Stock Exchange of Hong Kong Limited.

CONVERSIONS

For domestic production of crude oil: 1 tonne = 7.1 barrels;
For overseas production of crude oil: for the first half of 2017, 1 tonne = 7.21 barrels; for the first half of 2016, 1 tonne = 7.22 barrels;
For production of natural gas: 1 cubic meter = 35.31 cubic feet;
Refinery throughput: 1 tonne = 7.35 barrels.

BASIC INFORMATION

LEGAL NAME
中國石油化工股份有限公司

CHINESE ABBREVIATION
中國石化

ENGLISH NAME
China Petroleum & Chemical Corporation

ENGLISH ABBREVIATION
Sinopec Corp.

LEGAL REPRESENTATIVE
Mr. Wang Yupu

AUTHORISED REPRESENTATIVES
Mr. Dai Houliang
Mr. Huang Wensheng

SECRETARY TO THE BOARD
Mr. Huang Wensheng

REPRESENTATIVE ON SECURITIES MATTERS
Mr. Zheng Baomin

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22 Chaoyangmen North Street,
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Fax: 86-10-59960386
Website:http://www.sinopec.com
E-mail:ir@sinopec.com

CHANGE OF INFORMATION DISCLOSURE MEDIA AND ACCESS PLACES
There was no change to Sinopec Corp.'s information disclosure media or access places during the reporting period.

PLACES OF LISTING OF SHARES, STOCK NAMES AND STOCK CODES

A Shares:	Shanghai Stock Exchange Stock name: 中國石化 Stock code: 600028
H Shares:	Hong Kong Stock Exchange Stock code: 00386
ADR:	New York Stock Exchange Stock code: SNP
	London Stock Exchange Stock code: SNP

THERE IS NO CHANGE TO SINOPEC CORP'S REGISTERED ADDRESS DURING THE REPORTING PERIOD.

1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ASBE

(1) Principal accounting data

Items	Six-month periods ended 30 June **2017** **RMB million**	2016 RMB million	Changes over the same period of the preceding year (%)
Operating income	**1,165,837**	879,220	32.6
Net profit attributable to equity shareholders of the Company	**27,092**	19,250	40.7
Net profit attributable to equity shareholders of the Company excluding extraordinary gains and losses	**26,099**	18,290	42.7
Net cash flows from operating activities	**60,847**	76,112	(20.1)

	At 30 June 2017 RMB million	At 31 December 2016 RMB million	Changes from the end of last year (%)
Total equity attributable to equity shareholders of the Company	**718,878**	712,232	0.9
Total assets	**1,487,538**	1,498,609	(0.7)

(2) Principal financial indicators

Items	Six-month periods ended 30 June **2017** **RMB**	2016 RMB	Changes over the same period of the preceding year (%)
Basic earnings per share	**0.224**	0.159	40.9
Diluted earnings per share	**0.224**	0.159	40.9
Basic earnings per share (excluding extraordinary gains and losses)	**0.216**	0.151	43.0
Weighted average return on net assets (%)	**3.79**	2.81	0.98 percentage points
Weighted average return (excluding extraordinary gains and losses) on net assets (%)	**3.65**	2.67	0.98 percentage points

(3) Extraordinary items and corresponding amounts:

Items	Six-month period ended 30 June 2017 (gain)/loss RMB million
Net loss on disposal of non-current assets	98
Donations	13
Government grants	(1,386)
Gain on holding and disposal of various investments	(161)
Other extraordinary income and expenses, net	(63)
Subtotal	**(1,499)**
Tax effect	387
Total	**(1,112)**
Attributable to:	
Equity shareholders of the Company	(993)
Minority interests	(119)

2 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH IFRS

(1) Principal accounting data

Items	Six-month periods ended 30 June 2017 RMB million	2016 RMB million	Changes over the same period of the preceding year (%)
Operating profit	**39,309**	35,108	12.0
Profit attributable to owners of the Company	**27,915**	19,919	40.1
Net cash generated from operating activities	**60,847**	76,112	(20.1)

	As of 30 June 2017 RMB million	As of 31 December 2016 RMB million	Changes from the end of last year (%)
Total equity attributable to owners of the Company	**717,689**	710,994	0.9
Total assets	**1,487,538**	1,498,609	(0.7)

(2) Principal financial indicators

Items	Six-month periods ended 30 June 2017 RMB	2016 RMB	Changes over the same period of the preceding year (%)
Basic earnings per share	**0.231**	0.165	40.0
Diluted earnings per share	**0.231**	0.165	40.0
Return on capital employed (%)	**4.39**	3.18	1.21 percentage points

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

During the reporting period, there was no change in the nature and number of shares of Sinopec Corp.

2 NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

As at 30 June 2017 there were a total of 547,058 shareholders of Sinopec Corp., of which 540,912 were holders of A shares and 6,146 were holders of H shares. The public float of Sinopec Corp. satisfied the minimum requirements under the Hong Kong Listing Rules.

(1) Top ten shareholders **Unit: share**

Name of Shareholders	Nature of shareholders	Percentage of shareholdings %	Total number of shares held	Changes of shareholdings[1]	Number of shares subject to pledges or lock up
China Petrochemical Corporation	State-owned share	70.86	85,792,671,101	0	0
HKSCC (Nominees) Limited[2]	H share	20.96	25,380,485,918	832,865	Unknown
中國證券金融股份有限公司	A share	2.15	2,604,941,015	743,515,697	0
Hong Kong Securities Clearing Company Ltd	A share	0.29	355,049,308	(6,102,096)	0
中央匯金資產管理有限責任公司	A share	0.27	322,037,900	0	0
工銀瑞信基金－工商銀行－特定客戶資產管理	A share	0.09	111,011,494	(28,950,084)	0
交通銀行股份有限公司－豐晉信大盤股票型證券投資基金	A share	0.07	81,215,396	35,278,632	0
交通銀行股份有限公司－滙豐晉信雙核策略混合型證券投資基金	A share	0.07	80,290,499	(11,255,493)	0
長江證券股份有限公司	A share	0.07	80,057,295	8,860,000	0
中國工商銀行－上證50交易型開放式指數證券投資基金	A share	0.06	72,229,930	(5,628,700)	0

Note:

1. As compared with the number of shares as at 31 December 2016.
2. Sinopec Century Bright Capital Investment Limited, a wholly-owned overseas subsidiary of China Petrochemical Corporation, holds 553,150,000 H shares,accounting for 0.46% of the total share capital of Sinopec Corp. Such shareholdings are included in the total number of shares held by HKSCC Nominees Limited.

Statement on the connected relationship or acting in concert among the aforementioned shareholders:

Apart from 交通銀行股份有限公司－滙豐晉信大盤股票型證券投資基金 and 交通銀行股份有限公司－滙豐晉信雙核策略混合型證券投資基金 which were administrated by 豐晉信基金管理公司, Sinopec Corp. is not aware of any connected relationship or acting in concert among or between the above-mentioned shareholders.

(2) Information disclosed by H share shareholders in accordance with the Securities and Futures Ordinance (SFO) as at 30 June 2017

Name of shareholders	Status of shareholders	Number of shares interests held or regarded as held	Approximate percentage of Sinopec Corp.'s issued share capital (H share) (%)
BlackRock, Inc.	Interests of corporation controlled by the substantial shareholder	2,309,938,008(L) 366,000(S)	9.05(L) 0.00(S)
JPMorgan Chase & Co.	Beneficial owner	484,513,322(L) 60,217,238(S)	1.90(L) 0.24(L)
	Investment manager	28,783,900(L)	0.11(L)
	Trustee (exclusive of passive trustee)	20,400(L)	0.00(L)
	Custodian corporation/Approved lending agent	1,088,834,837(L)	4.27(L)
Schroders Plc	Investment manager	1,275,857,318(L)	5.00(L)

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

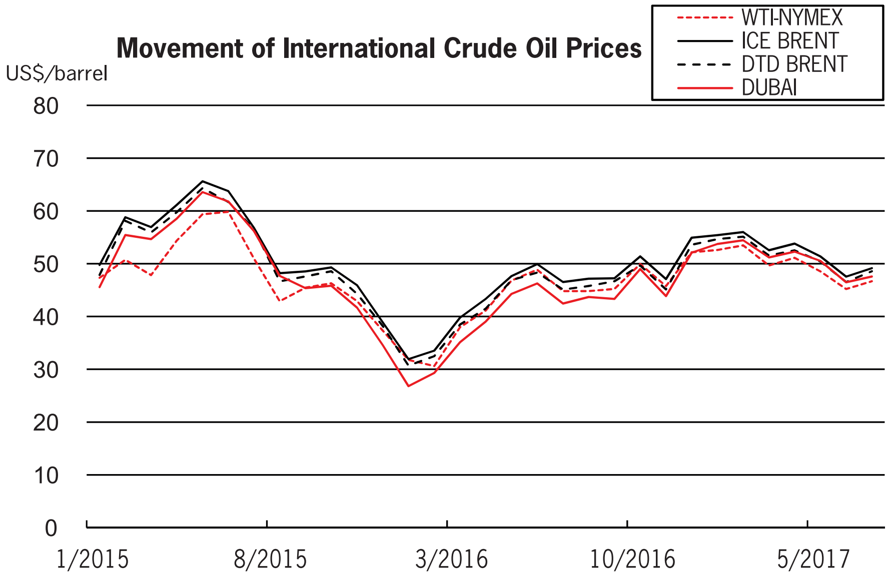
3 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

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

BUSINESS REVIEW

In the first half of 2017, global economy recorded moderate recovery and Chinese economy maintained steady growth with gross domestic product (GDP) up by 6.9% year on year. With abundant supply, domestic refined oil products market witnessed strong competition. According to the statistics, domestic consumption of refined oil products increased by 5.5% compared with the first half of 2016, among which gasoline and kerosene consumption maintained strong growth momentum, and diesel consumption reversed its downward trend and realised growth year on year. Domestic demand for natural gas accelerated, up by 15.2% compared with the first half of 2016.Domestic consumption of major chemicals grow significantly with consumption of ethylene equivalent up by 10.5% year on year, and gross margin for chemical products remained strong.

International crude oil prices went slightly upward at beginning of 2017 and then fluctuated downward. The average spot price of Platts Brent for the first half of 2017 was USD 51.8 per barrel, increased 30.4% year on year.



1 OPERATIONS REVIEW

(1) Exploration and production

In the first half of 2017, facing with low oil prices, the Company focused on reserve increase and development returns through our operation and production with superior results achieved. In exploration, our major direction maintained to focus on identification of high quality, large scale and low cost reserves. Number of new oil discoveries were made in Tahe Basin of Xinjiang, Junggar Basin, Shengli Oilfield and North Jiangsu Basin, and new natural gas discoveries were made in Sichuan Basin and Ordos Basin. In production, natural decline rate of matural fields was well controlled through refined development. Importance was attached to natural gas development, through expediting natural gas capacity construction in the Hangjinqi area of Erdos and fully promoting Phase II of Fuling Shale Gas development project. Production in the first half of 2017 was 211.38 million barrels of oil equivalent, up by 1.1% year on year, of which domestic crude production was 123.16 million barrels, overseas crude production was 22.82 million barrels, and total gas production was 452.12 billion cubic feet, increased by 16.3% compared to the same period of last year.

Exploration and Production: Summary of Operations

	Six-month periods ended 30 June 2017	2016	Changes (%)
Oil and gas production (mmboe)	221.38	218.99	1.1
Crude oil production (mmbbls)	145.98	154.17	(5.3)
China	123.16	128.38	(4.1)
Overseas	22.82	25.79	(11.5)
Natural gas production (bcf)	452.12	388.69	16.3

(2) Refining

In the first half of 2017, our refined oil products mix has been optimised to address market demand changes, more high value-added products were produced and diesel-to-gasoline ratio further decreased to 1.15. We actively promoted refined oil products quality upgrading, and the GB VI quality upgrading plan for "2+26" cities in North China completed ahead of schedule. Crude oil sourcing optimisation continued to lower our feedstock cost, and export of refined oil products was increased moderately to help maintain high operational utilisation rates of refining facilities. The advantages of centralised marketing took full play, and profitability of asphalt, lubricant and LPG was maintained. In the first half of 2017, we processed 118 million tonnes of crude oil, increased by 1.6% compared to the same period of last year, and produced 74.11 million tonnes of refined oil products, with production of gasoline and kerosene up by 1.4% and 5.9% respectively, from levels in the first half of 2016.

Refining: Summary of Operations

	Six-month periods ended 30 June 2017	2016	Changes (%)
Refinery throughput (million tonnes)	117.79	115.90	1.6
Gasoline, diesel and kerosene production (million tonnes)	74.11	73.26	1.2
Gasoline (million tonnes)	28.41	28.03	1.4
Diesel (million tonnes)	32.67	32.93	(0.8)
Kerosene (million tonnes)	13.03	12.30	5.9
Light chemical feedstock production (million tonnes)	18.94	19.37	(2.2)

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

(3) Marketing and distribution

In the first half of 2017, we took full advantages of our integrated business and distribution network to actively respond to over-supplied and competitive market conditions, and achieved good operational results. We optimised internal and external resources, put all efforts to expand market, and realised sustained growth in total sales volume of refined oil products. We flexibley adjusted our marketing strategies, promoted branding gasoline and increased retail volume of premium gasoline. We innovated operational models and optimised layout of service stations, and expedited revamping of storage and transportation facilities of refined oil products to further improve our distribution network. We proactively promote vehicle natural gas business, expediting the construction and operation of CNG/LNG stations, vehicle natural gas sales volume increased by 28.2% year on year. The total sales volume of refined oil products in the first half of 2017 was up by 1.4% from the corresponding period last year to 98.55 million tonnes, of which domestic sales accounted for 87.22 million tonnes, up by 0.8% year on year. By means of "Internet+" and other marketing measures, we promoted rapid growth of new business, put more efforts on cultivation of major products and self-owned brand products. Transaction value of emerging business (non-fuel) was RMB 27.8 billion, up by 50% from the first half of 2016.

Marketing and Distribution: Summary of Operations

	Six-month periods ended 30 June 2017	2016	Change (%)
Total sales volume of refined oil products (million tonnes)	98.55	97.17	1.4
Total domestic sales volume of refined oil products (million tonnes)	87.22	86.51	0.8
Retail (million tonnes)	58.68	59.65	(1.6)
Direct sales and Distribution (million tonnes)	28.54	26.86	6.3
Annualised average throughput per station (tonne/station)	3,832	3,889	(1.5)

	As of 30 June 2017	As of 31 December 2016	Change from the end of last year (%)
Total number of Sinopec-branded service stations	30,633	30,603	0.1
Company-operated	30,627	30,597	0.1

(4) Chemicals

We continued the"basic and high-end" chemical business development concept to promote effective supply. In the first half of 2017, we optimised operations based on marginal contribution and gross margin of chemical facilities to promote profitability. Ethylene production for the first half of 2017 was 5.609 million tonnes, up by 2.4% from the corresponding period last year. We deepened adjustments of feedstock mix to reduce chemical feedstock cost, and pressed ahead optimisation of product slate, producing more market-oriented and high value-added products, strengthened the integration among production, sales, R&D and application, and intensified efforts on R&D, production and promotion of new products, with the ratio of performance compound reaching 62%, up by 4 percent points from the same period of last year, and the differential ratio of synthetic fiber reaching 88.2% up by 4.9 percent points year on year. At the same time, by implementing low-inventory marketing strategy, putting advantages of marketing network into full play, conducting differentiated and tailor-made measures, the Company provided whole-process solutions and value-added services to our customers. In the first half of 2017, total chemicals sales volume increased by 13.6% from the corresponding period last year to 37.30 million tonnes.

Major Chemical Products: Summary of Operations **Unit of production: 1,000 tonnes**

	Six-month periods ended 30 June 2017	2016	Changes (%)
Ethylene	5,609	5,478	2.4
Synthetic resin	7,802	7,500	4.0
Synthetic fiber monomer and polymer	4,659	4,672	(0.3)
Synthetic fiber	616	637	(3.3)
Synthetic rubber	412	411	0.2

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

2. **SAFETY MANAGEMENT AND ENVIRONMENTAL PROTECTION**

   The Company valued safe production and intensified safety supervision. In the first half of this year, we strengthened identification and prevention of risks, further tightened hazard management of tank farms, reinforced on-site safety supervision and management, advanced contractor health and safety control and tightened safety management of key areas including offshore operations, well control, coal mines and hydrogen sulfide. Above all, we achieved safe production and operations.

   By active implementation of our green and low-carbon strategy, we promoted the integrated management of energy and environmental protection, pushed forward pollution prevention and treatment, deeply implemented "Energy Efficiency Doubling" plan and continued to advance carbon asset management. Energy conservation, pollution reduction and carbon reduction all recorded remarkable results. In the first half of 2017, energy intensity was down by 1.8%, industrial water consumption was down by 1.2%, chemical oxygen demand in discharged water was down by 2.3%, sulfur dioxide emissions were down by 4.3% from levels in the corresponding period last year, and all hazardous chemicals, discharged water, gas, and solid waste were properly treated.

3. **CAPITAL EXPENDITURES**

   Focusing on quality and returns of investment, the Company continuously optimised its investment projects. In the first half of 2017, total capital expenditures were RMB 15.953 billion. Capital expenditures for the exploration and production segment were RMB 6.870 billion, mainly for oil and gas capacity building, Tianjin LNG Terminal Project, Wen 23 Gas Storage Project, boosting project of Sichuan-to-East China Pipeline as well as overseas projects. Capital expenditures for the refining segment were RMB 3.672 billion, mainly for the Zhongke integrated refining and chemical project, product mix adjustments of ZRCC and Maoming, and GB VI gasoline and diesel quality upgrading projects. Capital expenditures for the marketing and distribution segment were RMB 2.500 billion, mainly for constructing refined oil products depots, pipelines and service stations. Capital expenditures for the chemicals segment were RMB 2.594 billion, mainly for integrated refining and chemical projects of Zhongke and Gulei and the high-efficiency and environmental friendly aromatics project in Hainan refinery. Capital expenditures for corporate and others were RMB 317 million, mainly for R&D facilities and information technology application projects.

BUSINESS PROSPECTS

Looking into the second half of 2017, we expect more reform measures to be announced by the Chinese government to revitalise real economy, the "Belt and Road" Initiative, synergetic development of Beijing-Tianjin-Hebei and the Yangtze River Economic Belt development will be further implemented. The China's economy will maintain steady growth and drive the demand of refined oil products and petrochemical products as well as create new growth opportunities for petroleum and petrochemical industry. Along with the adjustments of China's energy structure, demand of natural gas as cleaner energy resources will maintain robust growth rate. For the second half of 2017, the international crude oil prices are expected to fluctuate at a low level.

In the second half of 2017, in accordance with our objective of progressing at a steady pace to continually focus on growth stabilisation, market expansion, cost reduction, structural adjustments, reform, and consolidating the basis for the Company's further development. Our focuses are on the following aspects:

For Exploration and Production, we will continue to advance high-efficiency exploration activities, enlarge economical reserve and raise reserve production ratio. In crude oil development, we will accelerate profitable development of new oilfields and profitable re-opening of suspended wells, optimise development structure of oilfields, control natural decline rate and solidify basis for stable production. In natural gas development, we will advance key projects for capacity construction, strengthen the efficiency of developed gas fields, optimise natural gas production and marketing plans and advance facilities construction. In the second half of 2017, we plan to produce 148 million barrels of crude oil, of which domestic production will account for 125 million barrels and overseas production will account for 23 million barrels. We plan to produce 427.5 billion cubic feet of natural gas during the period.

For Refining, we will center on the structural reform on the supply side and accelerate the construction of four regional refining centers. Based on market demand and industrial trend, we will optimise product mix and produce more gasoline, jet fuel, light oil and other high value-added products. We will complete GB V standard of regular diesel upgrading project, and accelerate upgrading progress of GB VI standard gasoline. We will fine-tune crude oil procurement and resource allocation to reduce procurement cost, fully optimise operations and ensure safe and stable production, take full play of integrated advantages of production and marketing to further optimise processing scheduling. We plan to process 118 million tonnes of crude in the second half of the year.

For Marketing and Distribution, we will coordinate scale and efficiency of the business, short-term and long-term goals, set up flexible operation strategies, optimise resources allocation, sparing no effort to expand markets and our business scale. We will further improve retail network layout, solidify and promote the advantages of e-commerce development. We will step up construction of natural gas stations to expand vehicle natural gas market. We will explore a new type of business model integrating “Internet·Marketing·Services” with IT technology and boost the growth of emerging business (non-fuel). In the second half, we plan to sell 87.78 million tonnes of refined oil products in the domestic market in the second half of 2017.

For Chemicals, we will continue to adjust our feedstock structure to lower costs, fine-tune our product slate, improve the coordinating mechanism between production, marketing, research and application, advance new product development, promotion and application, deliver more speciality and high-end products and speed up the upgrading of synthetic resin, synthetic rubber and synthetic fiber. We will deepen the structural adjustments of facilities and optimise production and operation based on contribution of the marginal benefit and gross margin so as to enhance efficiency and profitability. Meanwhile, we will better our marketing network, improve customer services and provide integrated solutions and value-added services. We plan to produce 6.05 million tonnes of ethylene in the second half of 2017.

In the second half of the year, the Company will continue to focus on supply-side structural reform, upgrade growth pattern to enhance efficiency and profitability, and fully implement value-oriented growth, innovation-driven development, integrated resource allocation, openness to cooperation, and green, low-carbon development strategies so as to deliver superior business results.

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED INTERIM FINANCIAL STATEMENTS AND THE ACCOMPANYING NOTES. PARTS OF THE FOLLOWING FINANCIAL DATA, UNLESS OTHERWISE STATED, WERE ABSTRACTED FROM THE COMPANY'S AUDITED INTERIM FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED ACCORDING TO IFRS.

1 CONSOLIDATED RESULTS OF OPERATIONS

In the first half of 2017, the Company's turnover and other operating revenues were RMB 1,165.8 billion, representing an increase of 32.6% year on year, and profit attributable to owners of the company was RMB 27.9 billion, representing an increase of 40.1% year on year.

The following table sets forth the principal revenue and expenses items from the Company's consolidated financial statements for the first half of 2017 and the corresponding period in 2016:

	Six-month periods ended 30 June		
	2017	2016	Change
	RMB million		(%)
Turnover and other operating revenues	**1,165,837**	**879,220**	**32.6**
Turnover	1,137,828	856,796	32.8
Other operating revenues	28,009	22,424	24.9
Operating expenses	**(1,126,528)**	**(844,112)**	**33.5**
Purchased crude oil, products, and operating supplies and expenses	(887,028)	(615,419)	44.1
Selling, general and administrative expenses	(30,131)	(33,056)	(8.8)
Depreciation, depletion and amortisation	(55,217)	(49,105)	12.4
Exploration expenses, including dry holes	(4,542)	(4,730)	(4.0)
Personnel expenses	(31,328)	(29,063)	7.8
Taxes other than income tax	(116,297)	(112,831)	3.1
Other operating income, net	(1,985)	92	—
Operating profit	**39,309**	**35,108**	**12.0**
Net finance costs	(1,289)	(4,284)	(69.9)
Investment income and share of profit less losses from associates and joint ventures	7,937	4,697	69.0
Profit before taxation	**45,957**	**35,521**	**29.4**
Tax expense	(8,915)	(8,379)	6.4
Profit for the period	**37,042**	**27,142**	**36.5**
Attributable to:			
Owners of the Company	27,915	19,919	40.1
Non-controlling interests	9,127	7,223	26.4

(1) Turnover and other operating revenues

In the first half of 2017, the Company's turnover was RMB 1,137.8 billion, representing an increase of 32.8% year on year. The change was mainly attributable to the raise of international crude oil prices and petrochemical product prices as compared with the same period of last year.

The following table sets forth the external sales volume, average realised prices and respective change rates of the Company's major products in the first half of 2017 as compared with the first half of 2016.

	Sales Volume (thousand tonnes) Six-month periods ended 30 June		Change	Average realised price (VAT excluded) (RMB/tonne, RMB/thousand cubic meters) Six-month periods ended 30 June		Change
	2017	2016	(%)	**2017**	2016	(%)
Crude oil	3,341	3,669	(8.9)	2,357	1,596	47.7
Natural gas (million cubic meters)	11,554	9,844	17.4	1,270	1,267	0.2
LNG	2,484	1,379	80.1	2,552	2,076	22.9
Gasoline	41,400	38,689	7.0	6,966	6,176	12.8
Diesel	44,951	46,260	(2.8)	4,889	4,273	14.4
Kerosene	12,748	12,241	4.1	3,547	2,497	42.1
Basic chemical feedstock	17,015	14,665	16.0	4,888	3,862	26.6
Synthetic fibre monomer and polymer	5,018	3,304	51.9	5,947	5,108	16.4
Synthetic resin	6,301	5,889	7.0	7,994	7,049	13.4
Synthetic fibre	638	666	(4.2)	8,317	6,949	19.7
Synthetic rubber	551	518	6.4	13,423	8,812	52.3

Most of the 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 other customers. In the first half of 2017, the turnover from crude oil, natural gas and other upstream products sold externally amounted to RMB 33.1 billion, increased by 44.0% year on year, accounting for 2.8% of the Company's turnover and other operating revenues. The change was mainly attributable to significant recovery of crude oil prices as well as increased sales volume of natural gas.

Petroleum products (mainly consisting of oil products and other refined petroleum products) sold by the Refining Segment and the Marketing and Distribution Segment achieved external sales revenues of RMB 653.8 billion, representing an increase of 21.4% year on year and accounting for 56.1% of the Company's turnover and other operating revenues. Those changes were mainly due to the rise of downstream product prices driven by crude oil price recovery.The sales revenue of gasoline, diesel and kerosene was RMB 553.4 billion, representing an increase of 18.5% year on year, accounting for 84.6% of the sales revenue of petroleum products. Sales revenue of other refined petroleum products was RMB 100.4 billion, representing an increase of 40.5% year on year, accounting for 15.4% of the sales revenue of petroleum products.

The Company's external sales revenue of chemical products was RMB 178.7 billion, representing an increase of 41.5% year on year, accounting for 15.3% of its turnover and other operating revenues.The change was mainly due to the increases in chemical product sales volume and prices.

(2) Operating expenses

In the first half of 2017, the Company's operating expenses were RMB 1,126.5 billion, representing an increase of 33.5% year on year. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses were RMB 887.0 billion, representing an increase of 44.1% year on year, accounting for 78.7% of total operating expenses, of which:

- Crude oil purchasing expenses were RMB 242.0 billion, representing an increase of 48.3% year on year. Throughput of crude oil purchased externally in the first half of 2017 was 88.65 million tonnes (excluding the volume processed for third parties), increased by 3.2% year on year. The average cost of crude oil purchased externally was RMB 2,730 per tonne, increased by 43.7% year on year.
- Other purchasing expenses were RMB 645.0 billion, increased by 42.6% year on year.The change was mainly due to the higher purchase prices of crude oil trade and external refined oil products.

Selling, general and administrative expenses of the Company totaled RMB 30.1 billion, representing a decrease of 8.8% year on year. The change was mainly due to the adjustment of the cost and tax accounting and the Company's continuing cost control effects.

Depreciation, depletion and amortisation expenses of the Company were RMB 55.2 billion, representing an increase of 12.4% year on year. This was mainly due to significant increase in depletion rate as a result of oil and gas reserves revision in the exploration and production segment following crude oil price drop.

Exploration expenses in the first half of 2017 were RMB 4.5 billion, representing a decrease of 4.0% year on year.This was mainly due to higher successful exploration rate and optimised deployment.

Personnel expenses were RMB 31.3 billion, representing an increase of 7.8 % year on year. The change was mainly attributable to the carryover effect of personnel expenses adjustment as a result of improvement of our recruitment system.

Taxes other than income tax were RMB 116.3 billion, representing an increase of 3.1% year on year. The change was mainly due to the adjustment of the cost and tax accounting and increased resources taxes as a result of crude oil price recovery.

Other operating income, net were RMB 2.0 billion, representing an increase of RMB 2.1 billion year on year. This was mainly due to the asset impairment of high cost oil fields.

(3) Operating profit

In the first half of 2017, the Company's operating profit was RMB 39.3 billion, representing an increase of 12.0% year on year. This was mainly due to the Company actively response volatile market situations, put our efforts on structure adjustment, quality upgrading and cost reduction, achieved good operation performance.

(4) Net finance costs

In the first half of 2017, the Company's net finance costs were RMB 1.3 billion, down by RMB 3.0 billion, representing a decrease of 69.9% year on year, which is mainly due to the increase in interest income by improving the management of cash and bills receivable, the decrease in interest expense by optimising of debt structure, and a foreign exchange gain.

(5) Profit before taxation

In the first half of 2017, the Company's profit before taxation amounted to RMB 46.0 billion, representing an increase of 29.4% year on year.

(6) Tax expense

In the first half of 2017, the Company's tax expense totaled RMB 8.9 billion, up by 6.4% year on year.

(7) Profit attributable to non-controlling interests of the Company

In the first half of 2017, profit attributable to non-controlling shareholders was RMB 9.1 billion, up by RMB 1.9 billion, representing an increase of 26.4% year on year.

(8) Profit attributable to owners of the Company

In the first half of 2017, profit attributable to owners of the Company was RMB 27.9 billion, representing an increase of 40.1% year on year.

2 DISCUSSION ON RESULTS OF SEGMENT OPERATION

The Company manages its operations by four business segments, namely exploration and production segment, refining segment, marketing and distribution segment and chemicals segment, as well as 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 includes 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 Six-month periods ended 30 June		As a percentage of consolidated operating revenues before elimination of inter-segment sales Six-month periods ended 30 June		As a percentage of consolidated operating revenues after elimination of inter-segment sales Six-month periods ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016
	RMB million		(%)		(%)	
Exploration and Production Segment						
External sales*	36,714	26,347	2.0	1.9	3.1	3.0
Inter-segment sales	37,395	26,162	2.0	1.9		
Operating revenues	**74,109**	**52,509**	**4.0**	**3.8**		
Refining Segment						
External sales*	66,633	51,718	3.6	3.7	5.7	5.9
Inter-segment sales	421,539	345,251	22.7	24.4		
Operating revenues	**488,172**	**396,969**	**26.3**	**28.1**		
Marketing and Distribution Segment						
External sales*	604,142	499,687	32.4	35.4	51.8	56.8
Inter-segment sales	1,818	1,282	0.1	0.1		
Operating revenues	**605,960**	**500,969**	**32.5**	**35.5**		
Chemicals Segment						
External sales*	185,481	131,771	9.9	9.3	16.0	15.0
Inter-segment sales	22,948	17,415	1.2	1.2		
Operating revenues	**208,429**	**149,186**	**11.1**	**10.5**		
Corporate and Others						
External sales*	272,867	169,697	14.6	12.0	23.4	19.3
Inter-segment sales	215,148	143,119	11.5	10.1		
Operating revenues	**488,015**	**312,816**	**26.1**	**22.1**		
Operating revenue before elimination of inter-segment sales	**1,864,685**	**1,412,449**	**100.0**	**100.0**		
Elimination of inter-segment sales	**(698,848)**	**(533,229)**				
Consolidated operating revenues	**1,165,837**	**879,220**			**100.0**	**100.0**

* Other operating revenues are included.

The following table sets forth the operating revenues, operating expenses and operating profit/(loss) by each segment before elimination of the inter-segment transactions for the periods indicated, and the percentage change between the first half of 2017 and the first half of 2016.

	Six-month periods ended 30 June 2017	2016	Change
	RMB million		(%)
Exploration and Production Segment			
Operating revenues	74,109	52,509	41.1
Operating expenses	92,443	74,438	24.2
Operating loss	**(18,334)**	**(21,929)**	**—**
Refining Segment			
Operating revenues	488,172	396,969	23.0
Operating expenses	458,779	364,381	25.9
Operating profit	**29,393**	**32,588**	**(9.8)**
Marketing and Distribution Segment			
Operating revenues	605,960	500,969	21.0
Operating expenses	589,394	485,192	21.5
Operating profit	**16,566**	**15,777**	**5.0**
Chemicals Segment			
Operating revenues	208,429	149,186	39.7
Operating expenses	196,272	139,508	40.7
Operating profit	**12,157**	**9,678**	**25.6**
Corporate and Others			
Operating revenues	488,015	312,816	56.0
Operating expenses	487,276	312,394	56.0
Operating profit	**739**	**422**	**75.1**
Elimination of inter-segment (loss)/profit	**(1,212)**	**(1,428)**	**—**

(1) Exploration and Production Segment

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

In the first half of 2017, operating revenues of the segment were RMB 74.1 billion, representing an increase of 41.1% year on year. This was mainly due to increased crude oil prices and expanded scale of LNG business.

In the first half of 2017, the segment sold 17.61 million tonnes of crude oil, representing a decrease of 5.0%; and 12.26 billion cubic meters of natural gas, representing an increase of 16.0% year on year. The average realised sales prices of crude oil and natural gas were RMB 2,316 per tonne and RMB 1,276 per thousand cubic meters, representing an increase of 50.5% and 0.1% respectively year on year.

In the first half of 2017, the operating expenses of the segment were RMB 92.4 billion, representing an increase of 24.2% year on year. This was mainly due to:

- Depreciation, depreciation and amortisation increased RMB 5.7 billion year on year;
- Oil and gas assets impairment increased RMB 3.5 billion year on year;
- LNG business expanded, purchase expense increased RMB 6.1 billion.

In the first half of 2017, the oil and gas lifting cost was RMB 767.3 per tonne, representing an increase of 3.2% year on year.

In the first half of 2017, the segment applied low-cost development principle throughout its production and operation processes, and realised good results. Operating loss of this segment was RMB 18.3 billion in the first half of 2017, a decrease of RMB 3.6 billion compared with the same period of last year.

(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 to both domestic and overseas customers through the refining segment.

In the first half of 2017, operating revenues of the segment were RMB 488.2 billion, representing an increase of 23.0% year on year. This was mainly attributable to increased prices of products.

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 the first half of 2017 and of 2016.

	Sales Volume (thousand tonnes) Six-month periods ended 30 June		Change	Average realised price (VAT excluded, RMB/tonne) Six-month periods ended 30 June		Change
	2017	2016	(%)	**2017**	2016	(%)
Gasoline	26,723	26,010	2.7	6,611	5,704	15.9
Diesel	28,322	28,398	(0.3)	5,070	4,319	17.4
Kerosene	7,403	7,071	4.7	3,579	2,505	42.9
Chemical feedstock	18,024	17,766	1.5	3,197	2,394	33.5
Other refined petroleum products	28,645	27,545	4.0	2,844	2,338	21.6

In the first half of 2017, the sales revenues of gasoline were RMB 176.7 billion, representing an increase of 19.1% year on year, accounting for 36.2% of the segment's operating revenue.

In the first half of 2017, the sales revenues of diesel were RMB 143.6 billion, representing an increase of 17.1% year on year, accounting for 29.4% of the segment's operating revenue.

In the first half of 2017, the sales revenues of kerosene were RMB 26.5 billion, representing an increase of 49.6% year on year, accounting for 5.4% of the segment's operating revenue.

In the first half of 2017, the sales revenues of chemical feedstock were RMB 57.6 billion, representing an increase 35.5% year on year, accounting for 11.8% of the segment's operating revenue.

In the first half of 2017, the sales revenues of refined petroleum products other than gasoline, diesel, kerosene and chemical feedstock were RMB 81.5 billion, representing an increase of 26.6% year on year, accounting for 16.7% of the segment's operating revenue.

In the first half of 2017, the segment's operating expenses were RMB 458.8 billion, representing an increase of 25.9% year on year, which was mainly attributable to increased purchase costs of crude oil.

In the first half of 2017, the average cost of processed crude oil was RMB 2,790 per tonne, representing an increase of 42.0% year on year. Total crude oil throughput was 110.67 million tonnes (excluding volume processed for third parties), representing an increase of 1.7% year on year. In the first half of 2017, the total cost of crude oil processed was RMB 308.8 billion, representing an increase of 44.4% year on year, accounting for 67.3% of the segment's operating expenses, an increase of 8.6 percentage points year on year.

In the first half of 2017, the unit refining cash operating cost (defined as operating expenses less cost of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax and other operating expenses, divided by the throughput of crude oil and refining feedstock) was RMB 168.2 per tonne, representing an increase of 2.5% year on year, which was mainly attributable to increased operating cost associated with oil products quality upgrading.

In the first half of 2017, the refining margin (defined as sales revenues less crude oil and refining feedstock costs and taxes other than income tax, divided by the throughput of crude oil and refining feedstock) was RMB 473.7 per tonne, representing a decrease of 7.9% year on year. In the first of 2016, crude oil prices dropped below the lower threshold prescribed in the domestic refined oil product pricing mechanism for some period, and domestic refined oil prices were not cut during the corresponding period. In the first half of 2017, such phenomenon did not occurred, as the result the prices spread between products and feedstock narrowed compared with the same period of 2017.

Despite the above situations, the segment managed to improve its refining margin by advancing oil products quality upgrading and optimising product mix. In the first half of 2017, the segment realised an operating profit of RMB 29.4 billion, representing a decrease of RMB 3.2 billion year on year.

(3) Marketing and Distribution Segment

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

In the first half of 2017, the operating revenues of the segment were RMB 606.0 billion, increased by 21.0% year on year. This was mainly due to the increasing refined oil products prices and sales revenues.

In the first half of 2017, the sales revenues of gasoline were RMB 288.5 billion, representing an increase of 20.6% year on year; the sales revenue of diesel was RMB 220.6 billion, up by 11.3% year on year and the sales revenue of kerosene was RMB 45.2 billion, up by 47.9% year on year.

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

	Sales Volume (thousand tonnes) Six-month periods ended 30 June		Change	Average realised price (VAT excluded, RMB/tonne) Six-month periods ended 30 June		Change
	2017	2016	(%)	**2017**	2016	(%)
Gasoline	**41,413**	**38,806**	**6.7**	**6,966**	**6,165**	**13.0**
Retail	32,701	31,608	3.5	7,364	6,505	13.2
Direct sales and Wholesale	8,712	7,198	21.0	5,470	4,672	17.1
Diesel	**45,107**	**46,378**	**(2.7)**	**4,890**	**4,274**	**14.4**
Retail	20,954	23,119	(9.4)	5,595	4,898	14.2
Direct sales and Wholesale	24,153	23,259	3.8	4,278	3,653	17.1
Kerosene	**12,748**	**12,241**	**4.1**	**3,547**	**2,497**	**42.1**
Fuel oil	**11,808**	**11,201**	**5.4**	**2,218**	**1,476**	**50.3**

In the first half of 2017, the operating expenses of the segment were RMB 589.4 billion, representing an increase of 21.5% year on year. This was mainly due to increased procurement costs of gasoline, diesel and kerosene.

In the first half of 2017, the segment's marketing cash operating cost (defined as the operating expenses less the purchase costs, taxes other than income tax, depreciation and amortisation, divided by the sales volume) was RMB 182.2 per tonne, representing a decrease of 1.2% year on year. This was mainly due to expansion of total sales volume of refined oil products.

In the first half of 2017, the total sales volume and margin of refined oil products increased as a result of the segment efforts in expanding market. The segment's operating profit was RMB 16.6 billion, representing an increase of RMB 0.8 billion year on year.

(4) Chemicals Segment

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

In the first half of 2017, operating revenues of the chemicals segment were RMB 208.4 billion, representing an increase of 39.7% year on year, which was mainly due to significantly increased chemical products prices and sales volume year on year.

The sales revenue generated by the segment's six major categories of chemical products (namely basic organic chemicals, synthetic fibre monomer and polymer, synthetic resin, synthetic fibre, synthetic rubber, and chemical fertiliser) totaled RMB 196.6 billion, representing an increase of 40.0% year on year, accounting for 94.3% of the operating revenues of the segment.

The following table sets forth the sales volume, average realised price and respective changes of each of the segment's six categories of chemical products in for the first half of 2017 and 2016.

	Sales Volume (thousand tonnes) Six-month periods ended 30 June		Change	Average realised price (VAT excluded, RMB/tonne) Six-month periods ended 30 June		Change
	2017	2016	(%)	**2017**	2016	(%)
Basic organic chemicals	21,599	19,162	12.7	4,755	3,765	26.3
Synthetic fibre monomer and polymer	5,050	3,314	52.4	5,956	5,111	16.5
Synthetic resin	6,311	5,902	6.9	7,993	7,043	13.5
Synthetic fibre	638	666	(4.2)	8,317	6,949	19.7
Synthetic rubber	553	519	6.6	13,465	8,814	52.8
Chemical fertiliser	321	344	(6.7)	1,956	1,541	26.9

In the first half of 2017, the operating expenses of the segment were RMB 196.3 billion, representing an increase of 40.7% year on year, which was mainly due to a significant increase of feedstock prices.

The segment's operating profit in the first half of 2017 was RMB 12.2 billion, representing an increase of 25.6% year on year.

(5) Corporate and Others

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

In the first half of 2017, the operating revenues generated from Corporate and Others were RMB 488.0 billion, representing an increase of 56.0% year on year, of which, sales revenues from trading of crude oil, refined oil products and other products amounted to RMB 486.6 billion. This was mainly due to increased crude oil prices.

In the first half of 2017, the operating expenses for corporate and others were RMB 487.3 billion, representing an increase of 56.0% year on year, of which, trading expenses of crude oil, refined oil products and other products generated by the trading subsidiaries of the Company amounted to RMB 483.9 billion.

In the first half of 2017, the segment's operating profit amounted to RMB 0.7 billion, of which, operating profit realised by the specialised subsidiaries such as trading companies was RMB 2.7billion, R&D expenses and headquarters expenses totaled RMB 2.0 billion.

3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

(1) Assets, liabilities and equity

Unit: RMB million

	As of 30 June 2017	As of 31 December 2016	Change
Total assets	1,487,538	1,498,609	(11,071)
Current assets	434,159	412,261	21,898
Non-current assets	1,053,379	1,086,348	(32,969)
Total liabilities	642,947	667,374	(24,427)
Current liabilities	462,409	485,543	(23,134)
Non-current liabilities	180,538	181,831	(1,293)
Total equity attributable to owners of the Company	717,689	710,994	6,695
Share capital	121,071	121,071	—
Reserves	596,618	589,923	6,695
Non-controlling Interests	126,902	120,241	6,661
Total equity	844,591	831,235	13,356

As of 30 June 2017, the Company's total assets were RMB 1,487.5 billion, representing a decrease of RMB 11.1 billion compared with that at the end of 2016, of which:

- Current assets were RMB 434.2 billion, representing an increase of RMB 21.9 billion compared with that at the end of 2016. This was mainly attributable to: cash and cash equivalents and time deposits with financial institutions increased by RMB 18.3 billion, inventories increased by RMB 10.5 billion, bills receivable decreased by RMB 3.4 billion, prepaid expenses and other current assets decreased by RMB 3.9 billion.
- Non-current assets were RMB 1,053.4 billion, representing a decrease of RMB 33.0 billion compared with that of the end of 2016. The change was mainly due to: a decrease of RMB 38.3 billion in depreciation, amortisation and etc. of property, plant and equipment, a decrease of RMB 10.0 billion in construction in progress; an increase of RMB 5.5 billion in interests in associates and joint ventures, an increase of RMB 2.5 billion in deferred tax assets, an increase of RMB 7.7 billion in long-term prepayment and other non-current assets.

As of 30 June 2017, the Company's total liabilities were RMB 642.9 billion, representing a decrease of RMB 24.4 billion compared with that at the end of 2016, of which:

- Current liabilities were RMB 462.4 billion, representing a decrease of RMB 23.1 billion compared with that at the end of 2016, of which, short-term debts and loans from Sinopec Group Company and fellow subsidiaries decreased by RMB 7.9 billion, accrued expenses and other payables decreased by RMB 10.5 billion, trade accounts payable decreased by RMB 4.2 billion.
- Non-current liabilities were RMB 180.5 billion, representing a decrease of RMB 1.3 billion compared with that at the end of 2016, of which, long-term debts decreased by RMB 1.7 billion, deferred tax liabilities decreased by RMB 1.5 billion, provisions increased by RMB 0.9 billion and other non-current liabilities increased by RMB 0.9 billion.

As of 30 June 2017, total equity attributable to owners of the Company was RMB 717.7 billion, representing an increase of RMB 6.7 billion compared with that of the end of 2016, which was mainly due to an increase of RMB 6.7 billion in reserves.

(2) Cash Flow

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

Unit: RMB million

Major items of cash flows	Six-month periods ended 30 June **2017**	2016	Changes in amount
Net cash generated from operating activities	60,847	76,112	(15,265)
Net cash used in investing activities	(40,002)	(26,059)	(13,943)
Net cash used in from financing activities	(16,038)	(45,930)	29,892
Net increase in cash and cash equivalents	4,807	4,123	684

In the first half of 2017, net cash generated from operating activities was RMB 60.8 billion, representing a decrease of RMB 15.3 billion in net cash inflow year on year.This was mainly due to the payments of deferred tax of RMB 21.0 billion in the first half of this year.

In the first half of 2017, net cash used in investing activities was RMB 40.0 billion, representing an increase of RMB 13.9 billion in cash outflow year on year. The change was mainly attributable to the net increase of time deposits over three months by RMB 10.7 billion.

In the first half of 2017 net cash used in financing activities was RMB 16.0 billion, representing a decrease of cash outflow of RMB 29.9 billion year on year. This was mainly due to net debt payments decreased by RMB 20.6 billion, as well as the distribution time difference of final cash dividend decreased cash outflow by RMB 7.3 billion as compared with the corresponding period last year.

(3) Contingent Liabilities

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

(4) Capital Expenditures

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

(5) Research & Development expenses

Research and Development expenses are identified as confirmed expenses which occurred in the reporting period. In the first half of 2017, the Company's research and development expenses amounted to RMB 2.672 billion.

4 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER ASBE

The major differences between the Company's financial statements prepared under ASBE and IFRS are set out in Section C of the financial statements of the Company from page 155 in this report.

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Operating income		
Exploration and Production Segment	74,109	52,509
Refining Segment	488,172	396,969
Marketing and Distribution Segment	605,960	500,969
Chemicals Segment	208,429	149,186
Corporate and Others	488,015	312,816
Elimination of inter-segment sales	(698,848)	(533,229)
Consolidated operating income	**1,165,837**	**879,220**
Operating profit/(loss)		
Exploration and Production Segment	(18,799)	(22,293)
Refining Segment	28,320	32,176
Marketing and Distribution Segment	15,977	15,056
Chemicals Segment	11,917	9,473
Corporate and Others	259	71
Elimination of inter-segment sales	(1,212)	(1,428)
Financial expenses, gain from changes in fair value and investment income	7,232	1,223
Other income	1,321	—
Consolidated operating profit	**45,015**	**34,278**
Net profit attributable to equity shareholders of the Company	**27,092**	**19,250**

Operating profit: In the first half of 2017, the operating profit of the Company was RMB 45.0 billion, representing an increase of 31.3% year on year. This was mainly due to that the Company actively responded to volatile market situations, put our efforts on cost reduction, structure adjustment and quality upgrading, and achieved good operation performance.

Net profit: In the first half of 2017, net profit attributable to the equity shareholders of the Company was RMB 27.1 billion, representing an increase of 40.7% year on year.

(2) Financial data prepared under ASBE:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million	Changes RMB million
Total assets	1,487,538	1,498,609	(11,071)
Non-current liabilities	179,303	180,541	(1,238)
Shareholders' equity	845,826	832,525	13,301

Total assets: As of 30 June 2017, the Company's total assets were RMB 1,487.5 billion, representing a decrease of RMB 11.1 billion compared with that of the end of 2016, of which, cash at bank and in hand, inventories, and long-term equity investment increased by RMB 18.3 billion, 10.5 billion and 5.5 billion respectively, fixed assets and construction in progress decreased by RMB 48.3 billion.

Non-current liabilities: As of 30 June 2017, the Company's non-current liabilities were RMB 179.3 billion, decreased by RMB 1.2 billion from that at the end of 2016, of which, long-term loans increased by RMB 5.6 billion, and bonds payable decreased by RMB 7.2 billion.

Shareholders' equity: As of 30 June 2017, total shareholders' equity of the Company was RMB 845.8 billion, representing an increase of RMB 13.3 billion compared with that at the end of 2016, of which, retained earnings increased by RMB 6.5 billion and minority interest increased by RMB 6.7 billion.

(3) The results of the principal operations by segments

Segments	Operating income (RMB million)	Operating cost (RMB million)	Gross profit margin* (%)	Increase/ (decrease) of operating income on a year-on-year basis (%)	Increase/ (decrease) of operating cost on a year-on-year basis (%)	Increase/ (decrease) of gross profit margin on a year-on-year basis (%)
Exploration and Production	74,109	72,976	(4.3)	41.1	24.5	11.3
Refining	488,172	339,859	8.1	23.0	39.2	(3.0)
Marketing and Distribution	605,960	559,971	7.3	21.0	22.2	(1.0)
Chemicals	208,429	184,500	10.7	39.7	43.9	(2.8)
Corporate and Others	488,015	482,932	1.0	56.0	56.9	(0.6)
Elimination of inter-segment sales	(698,848)	(697,636)	N/A	N/A	N/A	N/A
Total	**1,165,837**	**942,602**	**9.2**	**32.6**	**41.7**	**(2.3)**

* Gross profit margin = (Operating income – Operating cost, tax and surcharges)/Operating income

5 REASONS AND EFFECTS OF ACCOUNTING POLICY CHANGE

On 25 May 2017, Ministry of Finance issued Amendment to "Accounting Standards for Business Enterprises No. 16 – Government Grants", effective from 12 June 2017. An entity shall apply the amendment to new government grants incurred from 1 January 2017 up to the effective date.

In accordance with the above amendment, an item "other income" is separately presented before the item "operating income" in the Consolidated Income Statement, which reflects the relevant government grants received during enterprise's daily activities (such business was presented in "non-operating income" before the amendment takes effect).

1 CORPORATE GOVERNANCE

(1) During the reporting period, Sinopec Corp. committed itself to fully complying with domestic and overseas laws and regulations on securities and continuously improving its corporate governance. It timely adjusted the compositions of the Board and board of supervisors based on personnel changes, amended its Articles of Association, Rules and Procedures for Board of Directors' Meetings and the internal control procedures. The independent directors fulfilled their duties diligently and exerted a positive influence. The improvement of the investor relations and information disclosure quality earned the capital market's recognition. Sinopec Corp. actively participated in the UN Global Compact activities and achieved positive results.

During the reporting period, on 28 June 2017, Sinopec Corp. convened 2016 Annual General Meeting, 2017 First A Shareholders Class Meeting and 2017 First H Shareholders Class Meeting in Beijing, China in accordance with relevant laws, regulations and the notice, convening and holding procedures under the Articles of Association. For the details of the meetings, please refer to the poll results announcement published in China Securities Journal, Shanghai Securities News, and Securities Times on 29 June 2017 and on the websites of Hong Kong Stock Exchange on 28 June 2017.

(2) During the reporting period, none of Sinopec Corp., the Board, directors, supervisors, senior management, controlling shareholders, or de facto controllers of Sinopec Corp. was investigated by the CSRC, administratively punished or publicly reprimanded by the CSRC, the Hong Kong Securities and Futures Commission, and the Securities and Exchange Commission of the United States, or public censured by the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange, or the London Stock Exchange.

(3) Equity interests of directors, supervisors, and other senior management

As of 30 June 2017, apart from 13,000 A shares of Sinopec Corp. held by Vice President Mr. Ling Yiqun, none of the directors, supervisors, or other senior management of Sinopec Corp. held any shares of Sinopec Corp.

Save as disclosed above, the directors, supervisors or other senior management of Sinopec Corp. confirmed that none of them had any interest or short positions in any shares, underlying shares or debentures of Sinopec Corp. or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the registry pursuant to Section 352 of the SFO or as otherwise notified to Sinopec Corp. and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (Model Code) contained in Appendix 10 to the Hong Kong Listing Rules.

As required by the Hong Kong Stock Exchange, Sinopec Corp. has formulated the Rules Governing Shares and Changes in Shares Held by Company Directors, Supervisors and Senior Management and the Model Code of Securities Transactions by Company Employees (the Rules and the Code) to stipulate securities transaction by relevant employees. The standards of the Rules and the Code are no less strict than those set out in the Model Code. Upon the specific inquiries made by Sinopec Corp., all the directors confirmed that they had complied with the required standards of the Model Code as well as those set out in the Rules and the Code during the reporting period.

(4) Compliance with the Corporate Governance Code

Based on its actual situations, Sinopec Corp. did not establish a nomination committee under the Board in accordance with A.5 of the code provisions set out in the Corporate Governance Code and Corporate Governance Report (Corporate Governance Code) contained in Appendix 14 of the Hong Kong Listing Rules. Sinopec Corp. is of the view that the director candidates nominated by all the members of the Board will better serve Sinopec Corp.'s operation. The Board will perform the duties of the nomination as the nomination committee under the Corporate Governance Code.

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

(5) Review of the Interim Report

The Audit Committee of Sinopec Corp. has reviewed and confirmed the Interim Report.

2 DIVIDEND

(1) Dividend distribution for the year ended 31 December 2016

Upon the approval at its 2016 Annual General Meeting, the final cash dividend of Sinopec Corp. for 2016 was RMB 0.17 per share (tax inclusive). The final dividend for 2016 has been distributed on or before 28 July 2017 to shareholders who were registered as existing shareholders as at 18 July 2017. Combined with the 2016 interim cash dividend of RMB 0.079 per share (tax inclusive), the total cash dividend for 2017 amounted to RMB 0.249 per share (tax inclusive).

(2) Interim dividend distribution plan for the six months ended 30 June 2017

As approved at the 14th meeting of the sixth session of the Board, the interim dividend for the six months ended 30 June 2017 of RMB 0.10 per share (tax inclusive) will be distributed based on the total number of shares as of 19 September 2017 (record date) in cash.

The 2017 interim dividend distribution plan, with the consideration of interest of shareholders and development of the Company, is in compliance with the Articles of Association and relevant procedures. The independent non-executive directors have issued independent opinions on it.

The interim cash dividend will be distributed on or before 29 September 2017 (Friday) to all shareholders whose names appear on the register of members of Sinopec Corp. on 19 September 2017 (Tuesday). To be entitled to the interim dividend, holders of H shares shall lodge their share certificates and transfer documents for registration with Hong Kong Registrars Limited at 1712-1716, 17th floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 12 September 2017 (Tuesday). The register of members of the H shares of Sinopec Corp. will be closed from 13 September 2017 (Wednesday) to 19 September 2017 (Tuesday) (both days inclusive).

The dividend will be denominated and declared in RMB and distributed to domestic shareholders and Shanghai-Hong Kong Stock Connect shareholders in RMB and to foreign shareholders in Hong Kong Dollars. The exchange rate for dividend to be paid in Hong Kong dollars is based on the average benchmark exchange rate of RMB against Hong Kong Dollar as published by the People's Bank of China one week ahead of the date of declaration of the interim dividend, i.e. 25 August 2017 (Friday).

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

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

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

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

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

3 RESOLUTIONS ON THE PLAN OF OVERSEAS LISTING OF SINOPEC MARKETING CO., LTD.

On 27 April 2017, the 13th meeting of sixth session of Board considered and approved the resolution on the plan of overseas listing of Sinopec Marketing Co., Ltd. and other relevant resolutions. On 28 June 2017, the aforesaid resolutions were considered and approved on the annual general meeting for 2016, the first A shareholders class meeting for 2017 and the first H shareholders class meeting for 2017, respectively. For more details, please refer to the announcements published in China Securities Journal, Shanghai Securities News and Securities Times by Sinopec Corp. on 28 April 2017 and 29 June 2017 respectively, as well as announcements on the website of the Hong Kong Stock Exchange on 27 April 2017 and 28 June 2017 respectively.

4 ACQUISITION OF SHAREHOLDINGS OF SHANGHAI SECCO BY GAOQIAO PETROCHEMICAL, A SUBSIDIARY OF SINOPEC CORP.

On 27 April 2017, Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. (Gaoqiao Petrochemical) and BP Chemicals East China Investments Limited (BP Chemicals) entered into an equity interest purchase agreement. Pursuant to the agreement, Gaoqiao Petrochemical purchased 50% shareholdings of Shanghai SECCO Petrochemical Company Limited (Shanghai Secco) from BP Chemicals (Acquisition) and Sinopec Corp., as the controlling shareholder of Gaoqiao Petrochemical, shall use its commercially reasonable endeavor to procure the completion of the Acquisition. Upon the completion of the Acquisition, Shanghai Secco will be held as to 50% by Gaoqiao Petrochemical, 30% by Sinopec Corp. and 20% by Sinopec Shanghai Petrochemical Company Limited. For more details, please refer to the announcement published in China Securities Journal, Shanghai Securities News and Securities Times by Sinopec Corp. on 28 April 2017 and the announcement on the website of Hong Kong Stock Exchange on 27 April 2017.

5 MAJOR PROJECTS

(1) Fuling shale gas project

Under the guidance of "overall deployment and stage-wise implementation", the second phase of production capacity building was promoted comprehensively in 2017. The Company's self-owned fund accounts for 50% of the project investment, bank loans are the main source for the remaining 50%. As of 30 June 2017, the cumulative realised investment was RMB 29.4 billion with production capacity of 7 billion cubic meters per year completed.

(2) Tianjin LNG project

The Tianjin LNG project with designed receiving capacity of 3 million tonnes per year consists mainly of the construction of wharf, terminal and transportation pipelines. It is expected to be completed and in operation in December 2017. The Company's self-owned fund accounts for 40% of the project investment, bank loans are the main source for the remaining 60%. As of 30 June 2017, the cumulative realised investment was RMB 9.3 billion.

(3) Zhongke integrated refining and petrochemical project

Zhongke integrated refining and petrochemical project consists mainly of a 10 million tonnes per year refinery, 800 thousand tonnes per year ethylene project, a wharf with crude oil receiving capacity of 300 thousand tonnes per year and relevant utilities. The mechanical completion is expected to be achieved in June 2020. The Company's self-owned fund accounts for 40% of the project investment, bank loans are the main source for the remaining 60%. As of 30 June 2017, the cumulative realised investment was RMB 4.8 billion.

6 CORPORATE BONDS ISSUED AND INTEREST PAYMENTS

Basic information of corporate bonds

Bond name	Sinopec Corp 2010 Corporate bond	Sinopec Corp 2012 Corporate bond		Sinopec Corp.2015 Corporate bond (first issue)	
Abbreviation	10石化02	12石化01	12石化02	15石化01	15石化02
Code	122052	122149	122150	136039	136040
Issuance date	21 May 2010	1 June 2012		19 November 2015	
Maturity date	21 May 2020	1 June 2017	1 June 2022	19 November 2018	19 November 2020
Amount issued (RMB billion)	9	13	7	16	4
Outstanding balance (RMB billion)	9	0	7	16	4
Interest rate (%)	4.05	4.26	4.90	3.3	3.7
Principal and interest repayment	Simple interest is calculated and paid on an annual basis without compounding interests. The principal will be paid at maturity with last installment of interest.				
Payment of interests	Sinopec Corp. had paid in full the interest accrued of "10石化02", "12石化01" and "12石化02" during the reporting period, among which Bond "12石化01" had been repaid and delisted from the Shanghai Stock Exchange.				
Investor Qualification Arrangement	15石化01 and 15石化02 were publicly offered to qualified investors in accordance with Administration of the Issuance and Trading of Corporate Bonds				
Listing place	Shanghai Stock Exchange				
Corporate bonds trustee	China International Capital Corporation Limited				
	27th-28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing				
	Huang Xu, Zhai Ying				
	(010) 6505 1166				
Credit rating agency	United Credit ratings Co., Ltd.				
	12th Floor, PICC building, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing				
Use of proceeds	Proceeds from the above-mentioned corporate bonds have been used for their designated purpose disclosed in the relevant announcements. All the proceeds have been completely used.				
Credit rating agency	During the reporting period, United Credit ratings Co., Ltd. provided continuing credit rating for 10石化02, 12石化01, 12石化02, 15石化01 and 15石化02 and reaffirmed AAA credit rating in the continuing credit rating report dated 25 May 2017. The long term credit rating of Sinopec Corp. remained AAA with its outlook being stable. The aforesaid credit rating results have no changes compared with last year.				
Credit addition mechanism, repayment scheme and other relative events for corporate bondsduring the reporting period	During the reporting period, there is no credit addition mechanism and change of the repayment arrangement for the above-mentioned corporate bonds Sinopec Corp. strictly followed the provisions in the corporate bond prospectus to repay principals and interests of the corporate bonds.				
Convening of corporate bond holders' meeting	During the reporting period, the bondholders' meeting was not convened.				
Performance of corporate bonds trustee	During the durations of the above-mentioned bonds, the bond trustee, China International Capital Corporation Limited, has strictly followed the Bond Trustee Management Agreement and continuously tracked the company's credit status, utilisation of bond proceeds and repayment of principals and interests of the bond. The bond trustee has also advised the company to fulfill obligations as described in the corporate bond prospectus and exercised its duty to protect the bondholders' legitimate rights and interests. The bond trustee disclosed the Trustee Management Affairs Report. The full disclosure is available on the website of Shanghai Stock Exchange (http://www.sse.com.cn)				

Principal accounting data and financial indicators as of 30 June 2017

Principal data	**As of 30 June 2017**	As of 31 December 2016	**Change**	Reasons for change
Current ratio	0.94	0.85	0.09	Due to the increase of deposits and decrease of short-term debts
Quick ratio	0.58	0.53	0.05	Due to the increase of deposits and decrease of short-term debts
Liability-to-asset ratio	43.14%	44.45%	(1.31) percentage points	Due to the decrease of interest-bearing debts
Loan repayment rate	100%	100%	—	

	Six-month period ended 30 June 2017	2016	**Change**	Reasons for change
EBITDA-to-interest coverage ratio	28.75	17.43	11.32	Due to the increase of profit and decrease of interest expense
Interest payment rate	100%	100%	—	

Significant Events

During the reporting period, the Company paid in full the interest accrued for the other bonds and debt financing instruments. As at 30 June 2017, the standby credit line provided by several domestic financial institutions to the Company was RMB 366.899 billion in total, facilitating the Company to get such amount of unsecured loans. As of 30 June 2017, the Company has accessed RMB 48.855 billion which was recorded into loans from the aforesaid credit line and all the matured debts have been repaid on time. During the reporting period, Sinopec Corp. fulfilled relevant undertakings in the prospectus 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 Sinopec Corp. with four different maturities, 3 years, 5 years, 10 years and 30 years. The 3-year notes principal totaled USD 750 million, with an annual interest rate of 1.250% and had been repaid in 2016; the 5-year notes principal totaled USD 1 billion, with an annual interest rate of 1.875%; the 10-year notes principal totaled USD 1.25 billion, with an annual interest rate of 3.125%; and the 30-year notes principal totaled USD 500 million, with an annual interest rate of 4.250%. These notes were listed on the Hong Kong Stock Exchange on 25 April 2013, with interest payable semi-annually. The first payment of interest was made on 24 October 2013. During the reporting period, the Company has paid in full the current-period interests of all notes with maturities of 5 years, 10 years and 30 years.

7 CORE COMPETITIVENESS ANALYSIS

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

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

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

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

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

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

8 CONNECTED TRANSACTIONS DURING THE REPORTING PERIOD

Sinopec Corp. and China Petrochemical Corporation entered into a number of agreements with respect to continuing connected transactions, including the mutual supply agreement, the community services agreement, the land use rights leasing agreement, the properties leasing agreement, the intellectual property license agreement and safety production insurance fund document.

Pursuant to the above-mentioned agreements on continuing connected transactions, the aggregate amount of the connected transactions of the Company during the reporting period was RMB 154.050 billion. Among the expenses, purchase expense amounted to RMB 103.374 billion, representing 10.40% of the total amount of this type of transaction for the reporting period, including purchases of products and services (procurement, storage, exploration and development services, and production-related services) of RMB 95.742 billion, auxiliary and community services of RMB 3.209 billion, housing rent of RMB 207 million, rent for use of land of RMB 3.988 billion, and interest expenses of RMB 228 million. Sales income amounted to RMB 50.676 billion, representing 4.17% of the total amount of this type of transaction for the reporting period, including RMB 50.336 billion for sales of products and services, RMB 18 million for agency commission income, and RMB 322 million for interest income.

9 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 period	Amount incurred	Balance at the end of the period	Balance at the beginning of the period	Amount incurred	Balance at the end of the period
China Petrochemical Group	Parent company and its subordinate companies*	26,464	604	27,068	29,541	(7,906)	21,635
Other related parties	Associates and joint ventures	6,008	(331)	5,677	55	(3)	52
Total		**32,472**	**273**	**32,745**	**29,596**	**(7,909)**	**21,687**
Reason for provision of funds between related parties		Loans and other accounts receivable and accounts payable					
Impacts on operating results and financial position		No material negative impact					

*: Subordinate companies includes subsidiaries, joint ventures and associates.

10 SIGNIFICANT LITIGATION AND ARBITRATION RELATING TO THE COMPANY

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

11 OTHER MATERIAL CONTRACTS

Saved as disclosed by Sinopec Corp., the Company did not enter into any significant contracts which are 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 court's effective judgments which should be executed or any large amount of debt which should be repaid.

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

During the reporting period, the deposit of the Company in Sinopec Finance Co., Ltd. (Finance Company) and Sinopec Century Bright Capital Investment Ltd. (Century Bright Company) was strictly in compliance with the cap as approved at the general meeting of shareholders. During daily operations, the deposits of Sinopec Corp. in the Finance Company and Century Bright Company can be fully withdrawn for the Company's use.

14 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 companies	Amount	Transaction date (date of signing)	Period of guarantee	Type	Whether completed or not	Whether overdue or not	Amounts of overdue guarantee	Counter-guaranteed	Whether guaranteed for connected parties (yes or no)[1]
Sinopec Corp.	The listed company itself	Yueyang Sinopec Corp. Shell Coal Gasification Corporation	45	10 December 2003	10 December 2003 – 10 December 2017	Joint obligations	No	No	–	No	No
Sinopec Corp.	The listed company itself	Zhongtian Hechuang Energy Co., Ltd.	12,734	25 May 2016	25 May 2016 – 31 December 2023 (the mature date is estimated) 10 December 2017	Joint obligations	No	No	–	No	Yes
Sinopec Corp.	The listed company itself	Yanbu Aramco Sinopec Refining Company (YASREF) Limited	no specific amount agreed, guarantee on contract performance	31 December 2014	30 years from the date YASRFE requires supply of hydrogen from AirLiquedie Arabia LLC.	Joint obligations	No	No	–	No	No
Sinopec Great Wall Energy Chemical Industry Co., Ltd	Wholly owned subsidiary	Zhong An United Coal Chemical Co., Ltd.	940	18 April 2014	18 April 2014 – 17 April 2026	Joint obligations	No	No	–	No	No
SSI	Controlled subsidiary	New Bright International Development Ltd./ Sonangol E.P.	10,586			Joint obligations	No	No	–	Yes	No
Total amount of guarantees provided during the reporting period [2]											1,539
Total amount of guarantee balance at the end of reporting period[2] (A)											19,542
Guarantees by the Company to the controlled subsidiaries											
Total amount of guarantee provided to controlled subsidiaries during the reporting period											6,097
Total amount of guarantee for controlled subsidiaries balance at the end of the reporting period (B)											24,647
Total amount of guarantees provided by the Company (including those provided for controlled subsidiaries)											
Total amount of guarantees (A+B)											44,189
The proportion of the total amount of guarantees to the Sinopec Corp.'s net assets											6.15%
Guarantees provided for shareholders, de facto controller and connected parties (C)											2,223
Amount of debt guarantees provided directly or indirectly for the companies with liabilities to assets ratio over 70% (D)											2,520
The amount of guarantees in excess of 50% of the net assets (E)											None
Total amount of the above three guarantee items (C+D+E)											4,743
Explanation of guarantee undue that might involve joint and several liabilities											None
Explanation of guarantee status											None

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

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

15 STRUCTURED ENTITY CONTROLLED BY THE COMPANY

None

16 PERFORMANCE OF THE UNDERTAKINGS

Background	Type of Undertaking	Party	Contents	Term for performance	Whether bears deadline or not	Whether strictly performed or not
Undertakings related to Initial Public Offerings (IPOs)	Initial Public Offerings	China Petrochemical Corporation	1 Compliance with the connected transaction agreements; 2 Solving the issues regarding the legality of land-use rights certificates and property ownership rights certificates within a specified period of time; 3 Implementation of the Reorganisation Agreement (please refer to the definition of Reorganisation Agreement in the H share prospectus of Sinopec Corp.); 4 Granting licenses for intellectual property rights; 5 Avoiding competition within the same industry; 6 Abandonment of business competition and conflicts of interest with Sinopec Corp.	From 22 June 2001	No	Yes
Other undertakings	Other	China Petrochemical Corporation	China Petrochemical Corporation would dispose of its minor remaining chemicals business within five years in order to avoid competition with Sinopec Corp. in the chemicals business.	Within five years, commencing from 15 March 2012	Yes	Yes
			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 granted a 10-year option to Sinopec Corp. with the following provisions: (i) after a thorough analysis from political, economic and other perspectives, Sinopec Corp. is entitled to require China Petrochemical Corporation to sell its overseas oil and gas assets owned as of the date of the undertaking and still in its possession upon Sinopec Corp.'s exercise of the option to Sinopec Corp.; (ii) in relation to the overseas oil and gas assets acquired by China Petrochemical Corporation after the grant 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 those assets to Sinopec Corp. China Petrochemical Corporation undertakes to transfer the assets as required by Sinopec Corp. under aforesaid items (i) and (ii) to Sinopec Corp., provided that the exercise of such option complies with applicable laws and regulations, contractual obligations and other procedural requirements.	Within 10 years from 29 April 2014 or the date when China Petrochemical Corporation acquires the assets	Yes	Yes

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

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

17 IMPLEMENTATION OF THE SHARE INCENTIVE SCHEME DURING THE REPORTING PERIOD

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

18 SHARE OPTION INCENTIVE SCHEME OF SINOPEC CORP.'S SUBSIDIARY, SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED (SHANGHAI PETRO)

(1) Initial Grant of the Share Option:

Grant Date: 6 January 2015
Number of Participants: 214 persons
Number of Share Options Granted: 38,760,000

(2) Outstanding share options held by Directors, chief executive and substantial shareholders as at the end of the reporting period

As at the beginning of the reporting period, the total number of outstanding A share options held by five directors, chief executives and substantial shareholders of Shanghai Petro and Mr. Jin Wenmin, vice president of Shanghai Petro, were 2,540,000. As at the end of the Reporting Period, the total number of outstanding A share options held by four persons, including chairman and president of Shanghai Petro Mr. Wang Zhiqing; vice chairman and vice president Mr. Gao Jinping; director and vice president Mr. Jin Qiang; director, vice president, secretary to the board of Shanghai Petro and joint company secretary Mr. Guo Xiaojun and vice president Mr. Jin Wenmin were 2,110,000. Former director and chief financial officer of Shanghai Petro Mr. Ye Guohua resigned on 26 January 2017. Pursuant to the Share Option Incentive Scheme, the share options granted to him have lapsed.

(3) Outstanding share options granted to employees other than the persons mentioned in item (2)

As at the beginning of the reporting period, the number of outstanding A share options held by Shanghai Petro's key business personnel were 35,970,000. During the Reporting Period, 900,000 A share options held by Shanghai Petro's key business personnel lapsed due to termination of employment and other reaons. At the end of the reporting period, the number of outstanding A share options held by Shanghai Petro's key business personnel was 35,070,000.

(4) Exercise of the Share Options under the Initial Grant

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

(5) Validity Period and Exercise Arrangement under the Initial Grant

The validity period of the share options shall be five years commencing from the grant date, but is subject to the following exercise arrangements. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. There shall be three exercisable periods (one year for each exercisable period, same hereinafter) under the Share Option Incentive Scheme. Upon the fulfillment of the exercise conditions, 40%, 30% and 30% of the total share options granted shall become exercisable within the 1st, 2nd and 3rd exercisable periods, respectively.

Stage	Arrangement	Exercise ratio cap
Grant Date	Determined by the board of Shanghai Petro upon fulfillment of the conditions for grant under the Share Option Incentive Scheme	—
1st Exercisable Period	Commencing on the first trading day after the expiry of the 24-month period following the grant date and ending on the last trading day preceding the expiry of the 36-month period following the grant date	40%
2nd Exercisable Period	Commencing on the first trading day after the expiry of the 36-month period following the grant date and ending on the last trading day preceding the expiry of the 48-month period following the grant date	30%
3rd Exercisable Period	Commencing on the first trading day after the expiry of the 48-month period following the grant date and ending on the last trading day preceding the expiry of the 60-month period following the grant date	30%

Save as disclosed herein, no A share options of Shanghai Petro were granted pursuant to the Share Option Incentive Scheme or exercised by any grantees or cancelled or lapsed during the Reporting Period.

(6) Share options exercised as at the report date

At the third meeting of the Ninth Session of the board of Shanghai Petro held on 23 August 2017, "Resolution in respect of adjustment to the participants list and the number of share options of the A Share Share Option Incentive Scheme of Shanghai Petro", "Resolution in respect of determination of the exercise date of share options initially granted under A Share Option Incentive Scheme of Shanghai Petro" and "Resolution in respect of fulfillment of exercise conditions of first batch of share options initially granted under A Share Option Incentive Scheme of Shanghai Petro and arrangement of confirmation of the date to exercise options" were considered and passed. A total of 2,410,000 A share share options of Shanghai Petro held by 15 participants have been cancelled due to their resignations and other reasons. A total of 2,733,000 A share options of Shanghai Petro held by 27 participants have been cancelled after adjustment due to their position changes and other reasons.

A total of 5,143,000 A share options have been cancelled and the total number of A share options was adjusted to 33,617,000. A total of 14,212,500 A share options of first batch of share options initially granted were exercisable.

19 THE AUDIT FIRM

The appointment of PricewaterhouseCoopers ZhongTian LLP and PricewaterhouseCoopers Certified Public Accountants as Sinopec Corp.'s external auditors for the year 2017 and the authorisation to the Board to decide their remuneration was approved at Sinopec's 2016 Annual General Meeting on 28 June 2017. The Company has accrued audit fee of RMB 25.79 million for the first half of 2017. The interim financial report has been audited by PricewaterhouseCoopers ZhongTian LLP and PricewaterhouseCoopers Certified Public Accountants. The Chinese certified accountants signing the report are Zhao Jianrong and Gao Peng from PricewaterhouseCoopers ZhongTian LLP.

20 RISK FACTORS

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

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

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

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

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

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

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

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

Investment risks: Petroleum and chemical sector is a capital intensive industry. Although the Company adopted a prudent investment strategy and conducted rigorous feasibility study on each investment project, certain investment risks may exist in the sense that expected returns may not be achieved due to major changes in factors such as market environment, prices of equipment and raw materials, and construction period during the implementation of the projects.

Risks with regard to overseas business development and management: The Company engages in oil and gas exploration, refining and chemical, warehouse logistics and international trading businesses in some regions outside of China. The Company's overseas businesses and assets are subject to the jurisdiction of the host country's laws and regulations. In light of the complicacy of geopolitics, economic and other conditions, including sanctions, barriers to entry, instability in the financial and taxation policies, contract defaults, the Company's risks with regard to overseas business development and management could be increased.

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

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

21 INFORMATION ON MAJOR SUBSIDIARIES

The subsidiary whose net profit or investment income accounts for more than 10% of the Company's net profit:

	At 30 June 2017				Six-month period ended 30 June 2017			
Company name	Registered Capital (RMB million)	Percentage of shares held (%)	Total Assets (RMB million)	Net Assets (RMB million)	Net profit/ investment income (RMB million)	Principal Business Revenue (RMB million)	Principal Business Profit (RMB million)	Principal business
Sinopec Marketing Co., Ltd.	28,403	70.42	375,363	211,664	14,168	589,991	546,530	Sales of refined oil products

22 ENVIRONMENTAL PROTECTION BY SINOPEC CORP. AND ITS SUBSIDIARIES

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

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

On 28 June 2017, Sinopec Corp. convened the annual general meeting for the year 2016, during which Mr. Li Yunpeng was elected as the Non-executive Director of the sixth session of the Board, and Mr. Zhao Dong was elected as the Non-Employees' Representative Supervisor of the sixth session of the Board of Supervisors.

On 28 Jun 2017, through democratic election procedure, Mr. Yu Xizhi was elected as the Employees' Representative Supervisor of the sixth session of the Board of Supervisors.

On 28 Jun 2017, Sinopec Corp. convened the 10th meeting of the sixth session of the Board of the Supervisors, during which Mr. Zhao Dong was elected as Chairman of the Board of Supervisor of Sinopec CORP.

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

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

2 NO CHANGES IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND OTHER SENIOR MANAGEMENT DURING THE REPORTING PERIOD

普华永道

PwC ZT Shen Zi (2017) No. 10119

To the Shareholders of China Petroleum & Chemical Corporation,

OPINION

What we have audited

We have audited the accompanying interim financial statements of China Petroleum & Chemical Corporation (hereinafter "Sinopec Corp."), which comprise the consolidated and company balance sheets as at 30 June 2017, the consolidated and company income statements for the six months period then ended, the consolidated and company cash flow statements for the six months period then ended, the consolidated and company statements of changes in shareholders' equity for the six months period then ended, and the notes to the financial statements.

Our opinion

In our opinion, the accompanying interim financial statements present fairly, in all material respects, the consolidated and company's financial position of Sinopec Corp. as at 30 June 2017, and their financial performance and cash flows for the six months period then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

BASIS FOR OPINION

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

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

KEY AUDIT MATTERS

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

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

The key audit matter identified in our audit is "Recoverability of the carrying amount of oil and gas properties".

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of the carrying amount of oil and gas properties Refer to note 13 "FIXED ASSETS" to the consolidated financial statements. As at 30 June 2017, the carrying amount of oil and gas properties amounted to RMB 192,287 million. Low crude oil prices gave rise to possible indication that the carrying amount of oil and gas properties as at 30 June 2017 might be impaired. The Group has adopted discounted cash flow as the respective recoverable amounts of the oil and gas properties, which involved key estimations or assumptions including: – Future crude oil prices; – Future production profiles; – Future cost profiles; and – Discount rates. Because of the significance of the carrying amount of oil and gas properties as at 30 June 2017, together with the use of significant estimations or assumptions in determining their respective discounted cash flow, we had placed our audit emphasis on this matter.	In auditing the respective discounted cash flow of the relevant oil and gas properties, we have performed the following key procedures on the relevant discounted cash flow projections prepared by management: • Evaluated and tested the key controls, relating to the preparation of the discounted cash flow projections of oil and gas properties. • Compared estimates of future crude oil prices adopted by the Group against a range of reputable published crude oil price forecasts. • Compared the future production profiles against the oil and gas reserve estimation report approved by the management. Evaluated the competence, capability and objectivity of the management's experts engaged in estimating the oil and gas reserves. Assessed key estimations or assumptions used in the reserve estimation, by reference to historical data, management plans and/or reputable external data. • Compared the future cost profiles against historical costs or relevant budgets of the Group. • Independently estimated a range of discount rates, and found that the discount rates adopted by management were within the range. • Tested selected other key data inputs, such as natural gas prices and production profiles in the projections by reference to historical data and/or relevant budgets of the Group. • Assessed the methodology adopted in, and tested mathematical accuracy of the discounted cash flow projections. • Evaluated the sensitivity analyses prepared by the Group, and assessed the potential impacts of a range of possible outcomes. Based on our work, we found the key assumptions and input data adopted were supported by the evidence we gathered and consistent with our expectations.

OTHER INFORMATION

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

PricewaterhouseCoopers Zhong Tian LLP

Certified Public Accountants
Registered in the People's Republic of China

Zhao Jianrong (Engagement Partner)
Gao Peng

Shanghai, the People's Republic of China

25 August 2017

CONSOLIDATED BALANCE SHEET

as at 30 June 2017

	Note	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Assets			
Current assets			
Cash at bank and on hand	5	160,822	142,497
Bills receivable	6	9,819	13,197
Accounts receivable	7	50,560	50,289
Other receivables	8	23,151	25,596
Prepayments	9	4,154	3,749
Inventories	10	167,058	156,511
Other current assets		18,595	20,422
Total current assets		**434,159**	**412,261**
Non-current assets			
Available-for-sale financial assets	11	11,325	11,408
Long-term equity investments	12	122,296	116,812
Fixed assets	13	652,294	690,594
Construction in progress	14	119,548	129,581
Intangible assets	15	90,230	85,023
Goodwill	16	6,325	6,353
Long-term deferred expenses	17	13,764	13,537
Deferred tax assets	18	9,761	7,214
Other non-current assets	19	27,836	25,826
Total non-current assets		**1,053,379**	**1,086,348**
Total assets		**1,487,538**	**1,498,609**
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans	21	42,032	30,374
Bills payable	22	6,162	5,828
Accounts payable	23	170,116	174,301
Advances from customers	24	96,039	95,928
Employee benefits payable	25	4,190	1,618
Taxes payable	26	31,857	52,886
Dividends payable		22,336	2,006
Other payables	27	64,171	77,630
Short-term debentures payable	30	—	6,000
Non-current liabilities due within one year	28	25,506	38,972
Total current liabilities		**462,409**	**485,543**
Non-current liabilities			
Long-term loans	29	68,045	62,461
Debentures payable	30	47,784	54,985
Provisions	31	40,207	39,298
Deferred tax liabilities	18	6,146	7,661
Other non-current liabilities	32	17,121	16,136
Total non-current liabilities		**179,303**	**180,541**
Total liabilities		**641,712**	**666,084**
Shareholders' equity			
Share capital	33	121,071	121,071
Capital reserve	34	119,529	119,525
Other comprehensive income	35	(1,574)	(932)
Specific reserve	36	1,539	765
Surplus reserves	37	196,640	196,640
Retained earnings		281,673	275,163
Total equity attributable to shareholders of the Company		**718,878**	**712,232**
Minority interests		**126,948**	**120,293**
Total shareholders' equity		**845,826**	**832,525**
Total liabilities and shareholders' equity		**1,487,538**	**1,498,609**

These financial statements have been approved by the board of directors on 25 August 2017.

Wang Yupu
Chairman
(Legal representative)

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Assets			
Current assets			
Cash at bank and on hand		105,003	98,250
Bills receivable		294	471
Accounts receivable	7	28,044	38,332
Other receivables	8	53,629	45,643
Prepayments	9	1,915	3,454
Inventories		44,948	46,942
Other current assets		30,885	32,743
Total current assets		**264,718**	**265,835**
Non-current assets			
Available-for-sale financial assets		297	297
Long-term equity investments	12	271,220	268,451
Fixed assets	13	348,492	373,020
Construction in progress	14	46,170	49,277
Intangible assets		7,664	7,913
Long-term deferred expenses		1,901	1,980
Deferred tax assets		2,365	—
Other non-current assets		11,404	10,952
Total non-current assets		**689,513**	**711,890**
Total assets		**954,231**	**977,725**
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans		12,966	9,256
Bills payable		2,612	2,761
Accounts payable		67,566	75,787
Advances from customers		2,602	2,360
Employee benefits payable		1,433	312
Taxes payable		18,716	32,423
Dividends payable		20,582	—
Other payables		120,465	113,841
Short-term debentures payable		—	6,000
Non-current liabilities due within one year		17,970	38,082
Total current liabilities		**264,912**	**280,822**
Non-current liabilities			
Long-term loans		64,096	58,448
Debentures payable		36,000	36,000
Provisions		30,552	29,767
Deferred tax liabilities		—	505
Other non-current liabilities		3,054	2,607
Total non-current liabilities		**133,702**	**127,327**
Total liabilities		**398,614**	**408,149**
Shareholders' equity			
Share capital		121,071	121,071
Capital reserve		68,769	68,769
Other comprehensive income		274	263
Specific reserve		832	393
Surplus reserves		196,640	196,640
Retained earnings		168,031	182,440
Total shareholders' equity		**555,617**	**569,576**
Total liabilities and shareholders' equity		**954,231**	**977,725**

These financial statements have been approved by the board of directors on 25 August 2017.

Wang Yupu
Chairman
(Legal representative)

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	Six-month periods ended 30 June **2017** **RMB million**	2016 RMB million
Operating income	38	1,165,837	879,220
Less: Operating costs	38/41	942,602	665,193
Taxes and surcharges	39	116,297	112,831
Selling and distribution expenses	41	25,955	23,572
General and administrative expenses	41	35,903	38,416
Financial expenses	40	1,289	4,284
Exploration expenses, including dry holes	41/42	4,542	4,730
Impairment losses	43	4,076	1,423
Add: Gain from changes in fair value	44	369	113
Investment income	45	8,152	5,394
Other income	46	1,321	—
Operating profit		**45,015**	**34,278**
Add: Non-operating income	47	833	1,357
Less: Non-operating expenses	48	816	875
Profit before taxation		**45,032**	**34,760**
Less: Income tax expense	49	8,915	8,379
Net profit		**36,117**	**26,381**
Including: net profit of acquiree before the consolidation under common control		—	86
Attributable to:			
Equity shareholders of the Company		27,092	19,250
Minority interests		9,025	7,131
Income from continued operations		**36,117**	**26,381**
Basic earnings per share	59	**0.224**	**0.159**
Diluted earnings per share	59	**0.224**	**0.159**
Net profit		**36,117**	**26,381**
Other comprehensive income	35		
Items that may be reclassified subsequently to profit or loss (net of tax and after reclassification adjustments):			
Cash flow hedges		162	1,767
Changes in fair value of available-for-sale financial assets		(7)	(33)
Share of other comprehensive income of associates and joint ventures		277	99
Foreign currency translation differences		(1,542)	987
Total other comprehensive income		**(1,110)**	**2,820**
Total comprehensive income		**35,007**	**29,201**
Attributable to:			
Equity shareholders of the Company		26,450	24,233
Minority interests		8,557	4,968

These financial statements have been approved by the board of directors on 25 August 2017.

Wang Yupu
Chairman
(Legal representative)

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements.

	Note	Six-month periods ended 30 June 2017 RMB million	2016 RMB million
Operating income	38	411,410	346,149
Less: Operating costs	38	306,503	237,835
Taxes and surcharges		77,324	79,602
Selling and distribution expenses		1,280	1,304
General and administrative expenses		19,509	21,527
Financial expenses		1,395	2,065
Exploration expenses, including dry holes		4,143	4,730
Impairment losses		3,681	1,124
Add: Gain from changes in fair value		—	—
Investment income	45	8,873	8,750
Other income		358	—
Operating profit		**6,806**	**6,712**
Add: Non-operating income		326	767
Less: Non-operating expenses		481	469
Profit before taxation		**6,651**	**7,010**
Less: Income tax expense		478	852
Net profit		**6,173**	**6,158**
Income from continued operations		**6,173**	**6,158**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss (net of tax and after reclassification adjustments):			
Cash flow hedges		22	307
Share of other comprehensive loss of associates		(11)	(15)
Total other comprehensive income		**11**	**292**
Total comprehensive income		**6,184**	**6,450**

These financial statements have been approved by the board of directors on 25 August 2017.

Wang Yupu
Chairman
(Legal representative)

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The accompanying notes form part of these financial statements

	Note	Six-month periods ended 30 June	
		2017	2016
		RMB million	RMB million
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		1,310,796	1,024,105
Refund of taxes and levies		788	1,079
Other cash received relating to operating activities		33,601	39,148
Sub-total of cash inflows		**1,345,185**	**1,064,332**
Cash paid for goods and services		(1,021,990)	(732,307)
Cash paid to and for employees		(28,759)	(27,480)
Payments of taxes and levies		(190,325)	(169,094)
Other cash paid relating to operating activities		(43,264)	(59,339)
Sub-total of cash outflows		**(1,284,338)**	**(988,220)**
Net cash flow from operating activities	51(a)	**60,847**	**76,112**
Cash flows from investing activities:			
Cash received from disposal of investments		717	17,911
Cash received from returns on investments		3,395	1,459
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		216	306
Other cash received relating to investing activities		20,595	987
Net cash received from disposal of subsidiaries and other business entities		1	2,027
Sub-total of cash inflows		**24,924**	**22,690**
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(28,742)	(31,353)
Cash paid for acquisition of investments		(3,253)	(14,393)
Other cash paid relating to investing activities		(32,914)	(3,003)
Net cash paid for the acquisition of subsidiaries and other business entities		(17)	—
Sub-total of cash outflows		**(64,926)**	**(48,749)**
Net cash flow from investing activities		**(40,002)**	**(26,059)**
Cash flows from financing activities:			
Cash received from capital contributions		331	192
Including: Cash received from minority shareholders' capital contributions to subsidiaries		331	192
Cash received from borrowings		269,008	262,851
Sub-total of cash inflows		**269,339**	**263,043**
Cash repayments of borrowings		(279,559)	(293,977)
Cash paid for dividends, profits distribution or interest		(5,818)	(14,996)
Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders		(2,608)	(3,469)
Sub-total of cash outflows		**(285,377)**	**(308,973)**
Net cash flow from financing activities		**(16,038)**	**(45,930)**
Effects of changes in foreign exchange rate		**(148)**	**194**
Net increase in cash and cash equivalents	51(b)	**4,659**	**4,317**

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	Note	Six-month periods ended 30 June **2017** **RMB million**	2016 RMB million
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		488,179	385,148
Refund of taxes and levies		401	999
Other cash received relating to operating activities		11,055	10,499
Sub-total of cash inflows		**499,635**	**396,646**
Cash paid for goods and services		(305,731)	(241,787)
Cash paid to and for employees		(15,729)	(15,788)
Payments of taxes and levies		(121,123)	(85,487)
Other cash paid relating to operating activities		(25,772)	(20,785)
Sub-total of cash outflows		**(468,355)**	**(363,847)**
Net cash flow from operating activities		**31,280**	**32,799**
Cash flows from investing activities:			
Cash received from disposal of investments		5,242	20,237
Cash received from returns on investments		10,444	12,224
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		409	593
Other cash received relating to investing activities		11,555	364
Net cash received from disposal of subsidiaries and other business entities		1	2,027
Sub-total of cash inflows		**27,651**	**35,445**
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(17,267)	(24,448)
Cash paid for acquisition of investments		(5,519)	(19,692)
Other cash paid relating to investing activities		(13,010)	(10)
Sub-total of cash outflows		**(35,796)**	**(44,150)**
Net cash flow from investing activities		**(8,145)**	**(8,705)**
Cash flows from financing activities:			
Cash received from borrowings		76,625	95,722
Sub-total of cash inflows		**76,625**	**95,722**
Cash repayments of borrowings		(93,317)	(110,878)
Cash paid for dividends or interest		(2,690)	(9,460)
Sub-total of cash outflows		**(96,007)**	**(120,338)**
Net cash flow from financing activities		**(19,382)**	**(24,616)**
Net increase/(decrease) in cash and cash equivalents		**3,753**	**(522)**

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	Share capital RMB million	Capital reserve RMB million	Other comprehensive income RMB million	Specific reserve RMB million	Surplus reserves RMB million	Retained earnings RMB million	Total shareholders' equity attributable to equity shareholders of the Company RMB million	Minority interests RMB million	Total shareholders' equity RMB million
Balance at 31 December 2015	121,071	119,408	(7,984)	612	196,640	245,623	675,370	110,253	785,623
Adjustment for the combination of entities under common control (Note 1)	—	2,168	—	—	—	—	2,168	1,774	3,942
Balance at 1 January 2016	121,071	121,576	(7,984)	612	196,640	245,623	677,538	112,027	789,565
Change for the period									
1. Net profit	—	—	—	—	—	19,250	19,250	7,131	26,381
2. Other comprehensive income (Note 35)	—	—	4,983	—	—	—	4,983	(2,163)	2,820
Total comprehensive income	—	—	4,983	—	—	19,250	24,233	4,968	29,201
Transactions with owners, recorded directly in shareholders' equity:									
3. Appropriations of profits:									
– Distributions to shareholders (Note 50)	—	—	—	—	—	(7,264)	(7,264)	—	(7,264)
4. Transaction with minority interests	—	1	—	—	—	—	1	74	75
5. Distributions to the original shareholders in the combination of entities under common control	—	—	—	—	—	(47)	(47)	(39)	(86)
6. Distribution to minority interests	—	—	—	—	—	—	—	(2,194)	(2,194)
7. Adjustment for the combination of entities under common control (Note 1)	—	(2,137)	—	—	—	—	(2,137)	2,137	—
Total transactions with owners, recorded directly in shareholders' equity	—	(2,136)	—	—	—	(7,311)	(9,447)	(22)	(9,469)
8. Net increase in specific reserve for the period (Note 36)	—	—	—	620	—	—	620	86	706
9. Others	—	(10)	—	—	—	—	(10)	(10)	(20)
Balance at 30 June 2016	**121,071**	**119,430**	**(3,001)**	**1,232**	**196,640**	**257,562**	**692,934**	**117,049**	**809,983**
Balance at 1 January 2017	121,071	119,525	(932)	765	196,640	275,163	712,232	120,293	832,525
Change for the period									
1. Net profit	—	—	—	—	—	27,092	27,092	9,025	36,117
2. Other comprehensive income (Note 35)	—	—	(642)	—	—	—	(642)	(468)	(1,110)
Total comprehensive income	—	—	(642)	—	—	27,092	26,450	8,557	35,007
Transactions with owners, recorded directly in shareholders' equity:									
3. Appropriations of profits:									
– Distributions to shareholders (Note 50)	—	—	—	—	—	(20,582)	(20,582)	—	(20,582)
4. Transaction with minority interests	—	—	—	—	—	—	—	341	341
5. Distributions to minority interests	—	—	—	—	—	—	—	(2,341)	(2,341)
Total transactions with owners, recorded directly in shareholders' equity	—	—	—	—	—	(20,582)	(20,582)	(2,000)	(22,582)
6. Net increase in specific reserve for the period (Note 36)	—	—	—	774	—	—	774	96	870
7. Others	—	4	—	—	—	—	4	2	6
Balance at 30 June 2017	**121,071**	**119,529**	**(1,574)**	**1,539**	**196,640**	**281,673**	**718,878**	**126,948**	**845,826**

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	Share capital RMB million	Capital reserve RMB million	Other comprehensive income RMB million	Specific reserve RMB million	Surplus reserves RMB million	Retained earnings RMB million	Total shareholders' equity RMB million
Balance at 1 January 2016	121,071	68,716	(145)	313	196,640	175,679	562,274
Change for the period							
1. Net profit	—	—	—	—	—	6,158	6,158
2. Other comprehensive income	—	—	292	—	—	—	292
Total comprehensive income	—	—	292	—	—	6,158	6,450
Transactions with owners, recorded directly in shareholders' equity:							
3. Appropriations of profits:							
– Distributions to shareholders (Note 50)	—	—	—	—	—	(7,264)	(7,264)
Total transactions with owners, recorded directly in shareholders' equity	—	—	—	—	—	(7,264)	(7,264)
4. Net increase in specific reserve for the period	—	—	—	278	—	—	278
5. Others	—	(52)	—	—	—	—	(52)
Balance at 30 June 2016	**121,071**	**68,664**	**147**	**591**	**196,640**	**174,573**	**561,686**
Balance at 1 January 2017	121,071	68,769	263	393	196,640	182,440	569,576
Change for the period							
1. Net profit	—	—	—	—	—	6,173	6,173
2. Other comprehensive income	—	—	11	—	—	—	11
Total comprehensive income	—	—	11	—	—	6,173	6,184
Transactions with owners, recorded directly in shareholders' equity:							
3. Appropriations of profits:							
– Distributions to shareholders (Note 50)	—	—	—	—	—	(20,582)	(20,582)
Total transactions with owners, recorded directly in shareholders' equity	—	—	—	—	—	(20,582)	(20,582)
4. Net increase in specific reserve for the period	—	—	—	439	—	—	439
Balance at 30 June 2017	**121,071**	**68,769**	**274**	**832**	**196,640**	**168,031**	**555,617**

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The accompanying notes form part of these financial statements.

1 STATUS OF THE COMPANY

China Petroleum & Chemical Corporation (the "Company") was established on 25 February 2000 as a joint stock limited company. The company is registered in Beijing, the People's Republic of China, and the headquarter is located in Beijing, the People's Republic of China. The approval date of the financial report is 25 August 2017.

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

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

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

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

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

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

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

(3) the production and sale of chemical.

Pursuant to the resolution passed at the Directors' meeting on 29 October 2015, the Company entered into the JV Agreement with Sinopec Assets Management Corporation ("SAMC") in relation to the formation of the Gaoqiao Petrochemical Co. Ltd. According to the JV Agreement, the Company and SAMC jointly set up Gaoqiao Petrochemical Co. Ltd. for RMB 100 million in cash in 2016. Subsequently, the Company subscribed capital contribution with the net assets of Gaoqiao Branch of the Company and SAMC subscribed capital contribution with the net assets of Gaoqiao Branch of SAMC. The capital contribution was completed on 1 June 2016, after which the Company held 55% of Gaoqiao Petrochemical Co. Ltd.'s voting rights and become the parent company of Gaoqiao Petrochemical Co. Ltd..

As Sinopec Group Company controls both the Group and SAMC, the non-cash transaction described above between Sinopec and SAMC has been accounted as business combination under common control. Accordingly, the assets and liabilities of Gaoqiao Branch of SAMC have been accounted for at historical cost, and the consolidated financial statements of the Group prior to these acquisitions have been restated to include the results of operation and the assets and liabilities of Gaoqiao Branch of SAMC on a combined basis.

Details of the Company's principal subsidiaries are set out in Note 54, and there are no significant changes related to the consolidation scope during current period.

2 BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises – Basic Standards, specific standards and relevant regulations (hereafter referred as ASBE collectively) issued by the MOF on or after 15 February 2006. These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No.15: General Requirements for Financial Reports" issued by the China Securities Regulatory Commission ("CSRC").These financial statements present truly and completely the consolidated and company financial position as at 30 June 2017, and the consolidated and company financial performance and the consolidated and company cash flows for the six-month period ended 30 June 2017.

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

(2) Accounting period

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

(3) Measurement basis

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

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

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

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

(4) Functional currency and presentation currency

The functional currency of the Company's and most of its subsidiaries are Renminbi. The Group's consolidated financial statements are presented in Renminbi. The Company translates the financial statements of subsidiaries from their respective functional currencies into Renminbi (see Note 3(2)) if the subsidiaries' functional currencies are not Renminbi.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Principal accounting estimates and judgements of the Group are set out in Note 53.

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

(a) Business combination involving entities under common control

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

(b) Business combination involving entities not under common control

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(c) Method for preparation of consolidated financial statements

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

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

(3) Cash and cash equivalents

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

(4) Inventories

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

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

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

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

Inventories are recorded by perpetual method.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(5) Long-term equity investments

(a) Investment in subsidiaries

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

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

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

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

(b) Investment in joint ventures and associates

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(b) Investment in joint ventures and associates *(Continued)*

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

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

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

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

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

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

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

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

(6) Fixed assets and construction in progress

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(6) Fixed assets and construction in progress *(Continued)*

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

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

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

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

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

(7) Oil and gas properties

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

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

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

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

(8) Intangible assets

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(9) Goodwill

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

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

(10) Financial Instruments

Financial instruments of the Group include cash and cash equivalents, bond investments, equity securities other than long-term equity investments, receivables, derivative financial instruments, payables, loans, bonds payable, and share capital, etc.

(a) Classification, recognition and measurement of financial instruments

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

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

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

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

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

— Loans and receivables

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

— Held-to-maturity investment

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Financial Instruments *(Continued)*

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

— Available-for-sale financial assets

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

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

— Other financial liabilities

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

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

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

(b) Disclosure of financial assets and financial liabilities

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

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

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

(c) Determination of fair value

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

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

(d) Hedge accounting

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Financial Instruments *(Continued)*

(d) Hedge accounting *(Continued)*

— Cash flow hedges

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

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

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

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

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

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

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

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

— Fair value hedges

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

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

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

— Hedge of net investment in foreign operation

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Financial Instruments *(Continued)*

(e) Derecognition of financial assets and financial liabilities

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

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

— the carrying amounts; and

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

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

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

(a) Impairment of financial assets

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

Objective evidences of impairment include but not limited to:

(i) significant financial difficulty of the debtor;

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

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

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

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

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

— Receivables and held-to-maturity investments

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

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

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

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

— Available-for-sale financial assets

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

— Available-for-sale financial assets *(Continued)*

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

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

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

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

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

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

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

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

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

Impairment losses for assets are not reversed.

(12) Long-term deferred expenses

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

(13) Employee benefits

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

(a) Short term compensation

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(13) Employee benefits *(Continued)*

(b) Post-employment benefits

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

Basic pension insurance

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

(c) Termination benefits

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

(14) Income tax

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

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

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

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

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

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

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

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

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

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

  — the same taxable entity; or

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(15) Provisions

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

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

(16) Revenue recognition

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

(a) Revenues from sales of goods

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

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

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

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

(b) Revenues from rendering services

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

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

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

(c) Interest income

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

(17) Government grants

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

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

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

(18) Borrowing costs

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(19) Repairs and maintenance expenses

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

(20) Environmental expenditures

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

(21) Research and development costs

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

(22) Operating leases

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

(23) Dividends

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

(24) Related parties

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

(a) the holding company of the Company;

(b) the subsidiaries of the Company;

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

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

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

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

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

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

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

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

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

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

(25) Segment reporting

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

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

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

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

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

4 TAXATION

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

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

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

Before 1 July 2017, Value-added Tax ("VAT") rate is 13% for liquefied petroleum gas, natural gas and certain agricultural products and 17% for other products. In accordance with the "Notice Jointly Issued by the MoF and SAT on Policies of Simplifying the VAT Rates" (Cai Shui [2017] No.37), the VAT rate of 13% has been abolished from 1 July 2017. The VAT rate for selling or importing liquefied petroleum gas, natural gas and certain agricultural supplies, is 11%.

Pursuant to the 'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax'(Cai Shui [2016] No.36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from modern service of the subsidiaries of the Group, are subject to VAT from 1 May 2016, and the applicable tax rate is 6%, while the business tax was from 3% to 5% before then.

5 CASH AT BANK AND ON HAND

The Group

	At 30 June 2017			At 31 December 2016		
	Original currency million	**Exchange rates**	**RMB million**	Original currency million	Exchange rates	RMB million
Cash on hand						
Renminbi			11			10
Cash at bank						
Renminbi			95,329			91,855
US Dollars	2,954	6.7744	20,012	1,499	6.9370	10,406
Hong Kong Dollars	87	0.8679	76	87	0.8945	78
Others			233			75
			115,661			**102,424**
Deposits at related parities						
Renminbi			33,717			21,843
US Dollars	1,670	6.7744	11,314	2,619	6.9370	18,181
Others			130			49
			45,161			**40,073**
Total			**160,822**			**142,497**

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

At 30 June 2017, time deposits with financial institutions of the Group amounted to RMB 31,695 million (2016: RMB 18,029 million).

At 30 June 2017, structured deposits with financial institutions of the Group amounted to RMB 67,300 million (2016: RMB 75,000 million).

6 BILLS RECEIVABLE

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

At 30 June 2017, the Group's outstanding endorsed or discounted bills (with recourse) amounted to RMB 6,359 million (2016: RMB 7,523 million).

7 ACCOUNTS RECEIVABLE

	The Group		The Company	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Amounts due from subsidiaries	—	—	21,844	33,142
Amounts due from Sinopec Group Company and fellow subsidiaries	3,207	6,398	1,041	1,662
Amounts due from associates and joint ventures	4,387	4,580	1,758	2,036
Amounts due from others	43,564	39,994	3,554	1,720
	51,158	**50,972**	**28,197**	**38,560**
Less: Allowance for doubtful accounts	598	683	153	228
Total	**50,560**	**50,289**	**28,044**	**38,332**

Ageing analysis on accounts receivable is as follows:

	The Group							
	At 30 June 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total accounts receivable %**	**Allowance RMB million**	**Percentage of allowance to accounts receivable balance %**	Amount RMB million	Percentage to total accounts receivable %	Allowance RMB million	Percentage of allowance to accounts receivable balance %
Within one year	50,081	97.9	6	—	49,854	97.8	—	—
Between one and two years	423	0.8	145	34.3	464	0.9	231	49.8
Between two and three years	70	0.1	47	67.1	225	0.4	48	21.3
Over three years	584	1.2	400	68.5	429	0.9	404	94.2
Total	**51,158**	**100.0**	**598**		**50,972**	**100.0**	**683**	

	The Company							
	At 30 June 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total accounts receivable %**	**Allowance RMB million**	**Percentage of allowance to accounts receivable balance %**	Amount RMB million	Percentage to total accounts receivable %	Allowance RMB million	Percentage of allowance to accounts receivable balance %
Within one year	27,721	98.3	—	—	38,023	98.7	—	—
Between one and two years	274	1.0	43	15.7	357	0.9	114	31.9
Between two and three years	79	0.3	6	7.6	49	0.1	10	20.4
Over three years	123	0.4	104	84.6	131	0.3	104	79.4
Total	**28,197**	**100.0**	**153**		**38,560**	**100.0**	**228**	

At 30 June 2017 and 31 December 2016, the total amounts of the top five accounts receivable of the Group are set out below:

	At 30 June 2017	At 31 December 2016
Total amount (RMB million)	8,615	14,967
Percentage to the total balance of accounts receivable	16.8%	29.4%
Allowance for doubtful accounts	—	—

During the six-month periods ended 30 June 2017 and 2016, the Group and the Company had no individually significant accounts receivable been fully or substantially provided allowance for doubtful accounts.

During the six-month periods ended 30 June 2017 and 2016, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

8 OTHER RECEIVABLES

	The Group At 30 June 2017 RMB million	The Group At 31 December 2016 RMB million	The Company At 30 June 2017 RMB million	The Company At 31 December 2016 RMB million
Amounts due from subsidiaries	—	—	48,193	40,824
Amounts due from Sinopec Group Company and fellow subsidiaries	7,841	8,019	115	164
Amounts due from associates and joint ventures	4,721	4,841	4,004	3,986
Amounts due from others	11,917	14,085	2,405	1,793
	24,479	**26,945**	**54,717**	**46,767**
Less: Allowance for doubtful accounts	1,328	1,349	1,088	1,124
Total	**23,151**	**25,596**	**53,629**	**45,643**

Ageing analysis of other receivables is as follows:

	The Group							
	At 30 June 2017				At 31 December 2016			
	Amount RMB million	Percentage to total other receivables %	Allowance RMB million	Percentage of allowance to other receivables balance %	Amount RMB million	Percentage to total other receivables %	Allowance RMB million	Percentage of allowance to other receivables balance %
Within one year	21,399	87.4	57	0.3	24,316	90.2	57	0.2
Between one and two years	711	3.0	30	4.2	515	2.0	32	6.2
Between two and three years	521	2.1	16	3.1	254	0.9	13	5.1
Over three years	1,848	7.5	1,225	66.3	1,860	6.9	1,247	67.0
Total	**24,479**	**100.0**	**1,328**		**26,945**	**100.0**	**1,349**	

	The Company							
	At 30 June 2017				At 31 December 2016			
	Amount RMB million	Percentage to total other receivables %	Allowance RMB million	Percentage of allowance to other receivables balance %	Amount RMB million	Percentage to total other receivables %	Allowance RMB million	Percentage of allowance to other receivables balance %
Within one year	41,830	76.4	—	—	34,217	73.1	—	—
Between one and two years	3,279	6.0	1	—	2,740	5.9	1	—
Between two and three years	1,865	3.4	1	0.1	5,237	11.2	1	—
Over three years	7,743	14.2	1,086	14.0	4,573	9.8	1,122	24.5
Total	**54,717**	**100.0**	**1,088**		**46,767**	**100.0**	**1,124**	

At 30 June 2017 and 31 December 2016, the total amounts of the top five other receivables of the Group are set out below:

	At 30 June 2017	At 31 December 2016
Total amount (RMB million)	12,291	11,226
Ageing	Within one year	Within one year
Percentage to the total balance of other receivables	50.2%	41.7%
Allowance for doubtful accounts	—	—

During the six-month periods ended 30 June 2017 and 2016, the Group and the Company had no individually significant other receivables been fully or substantially provided allowance for doubtful accounts.

During the six-month periods ended 30 June 2017 and 2016, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

9 PREPAYMENTS

	The Group		The Company	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Amounts to subsidiaries	—	—	1,455	3,043
Amounts to Sinopec Group Company and fellow subsidiaries	173	206	31	58
Amounts to associates and joint ventures	26	24	—	—
Amounts to others	3,993	3,550	440	364
	4,192	**3,780**	**1,926**	**3,465**
Less: Allowance for doubtful accounts	38	31	11	11
Total	**4,154**	**3,749**	**1,915**	**3,454**

Ageing analysis of prepayments is as follows:

	The Group							
	At 30 June 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total prepayments %**	**Allowance RMB million**	**Percentage of allowance to prepayments balance %**	Amount RMB million	Percentage to total prepayments %	Allowance RMB million	Percentage of allowance to prepayments balance %
Within one year	3,770	89.9	—	—	3,465	91.7	—	—
Between one and two years	245	5.9	8	3.3	211	5.6	12	5.7
Between two and three years	85	2.0	5	5.9	72	1.9	1	1.4
Over three years	92	2.2	25	27.2	32	0.8	18	56.3
Total	**4,192**	**100.0**	**38**		**3,780**	**100.0**	**31**	

	The Company							
	At 30 June 2017				At 31 December 2016			
	Amount RMB million	**Percentage to total prepayments %**	**Allowance RMB million**	**Percentage of allowance to prepayments balance %**	Amount RMB million	Percentage to total prepayments %	Allowance RMB million	Percentage of allowance to prepayments balance %
Within one year	1,734	90.0	—	—	3,306	95.4	—	—
Between one and two years	92	4.8	—	—	62	1.8	—	—
Between two and three years	10	0.5	—	—	13	0.4	—	—
Over three years	90	4.7	11	12.2	84	2.4	11	13.1
Total	**1,926**	**100.0**	**11**		**3,465**	**100.0**	**11**	

At 30 June 2017 and 31 December 2016, the total amounts of the top five prepayments of the Group are set out below:

	At 30 June 2017	At 31 December 2016
Total amount (RMB million)	780	1,354
Percentage to the total balance of prepayments	18.6%	35.8%

10 INVENTORIES

The Group

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Raw materials	75,668	75,680
Work in progress	14,475	14,141
Finished goods	74,593	65,772
Spare parts and consumables	3,385	1,838
	168,121	**157,431**
Less: Provision for diminution in value of inventories	1,063	920
Total	**167,058**	**156,511**

Provision for diminution in value of inventories is mainly against finished goods and raw materials. During the six-month periods ended 30 June 2017, the provision for diminution in value of inventories of the Group was primarily due to the costs of finished goods of the marketing and distribution segment were higher than their net realisable value.

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Equity securities, listed and at quoted market price	238	262
Other investment, unlisted and at cost	11,116	11,175
	11,354	**11,437**
Less: Impairment loss for investments	29	29
Total	**11,325**	**11,408**

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

The impairment losses relating to investments for the six-month period ended 30 June 2017 amounted to nil (2016: nil).

12 LONG-TERM EQUITY INVESTMENTS

The Group

	Investments in joint ventures RMB million	Investments in associates RMB million	Provision for impairment losses RMB million	Total RMB million
Balance at 1 January 2017	50,696	66,838	(722)	116,812
Additions for the period	910	331	—	1,241
Share of profits less losses under the equity method	5,033	2,618	—	7,651
Change of other comprehensive income/(loss) under the equity method	288	(11)	—	277
Other equity movement under the equity method	1	—	—	1
Dividends declared	(2,346)	(757)	—	(3,103)
Disposals for the period	—	(61)	—	(61)
Other movements	(388)	(142)	—	(530)
Movement of provision for impairment	—	—	8	8
Balance at 30 June 2017	**54,194**	**68,816**	**(714)**	**122,296**

The Company

	Investments in subsidiaries RMB million	Investments in joint ventures RMB million	Investments in associates RMB million	Provision for impairment losses RMB million	Total RMB million
Balance at 1 January 2017	245,921	15,496	14,691	(7,657)	268,451
Additions for the period	808	230	160	—	1,198
Share of profits less losses under the equity method	—	2,418	595	—	3,013
Change of other comprehensive loss under the equity method	—	—	(11)	—	(11)
Dividends declared	—	(1,429)	—	—	(1,429)
Disposals for the period	(2)	—	—	—	(2)
Balance at 30 June 2017	**246,727**	**16,715**	**15,435**	**(7,657)**	**271,220**

For the six-month period ended 30 June 2017, the Group and the Company had no individually significant long-term investment impairment.

Details of the Company's principal subsidiaries are set out in Note 54.

Financial Statements (PRC)

12 LONG-TERM EQUITY INVESTMENTS *(Continued)*

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

(a) Principal joint ventures and associates

Name of investees	Principal place of business	Register location	Legal representative	Principal activities	Registered capital RMB million	Percentage of equity/voting right directly or indirectly held by the Company
1. Joint ventures						
Fujian Refining & Petrochemical Company Limited ("FREP")	PRC	PRC	Gu Yuefeng	Manufacturing refining oil products	14,758	50.00%
BASF-YPC Company Limited ("BASF-YPC")	PRC	PRC	Wang Jingyi	Manufacturing and distribution of petrochemical products	12,547	40.00%
Mansarovar Energy Colombia Ltd. ("Mansarovar")	Colombia	British Bermuda	NA	Crude oil and natural gas extraction	12,000 USD	50.00%
Taihu Limited ("Taihu")	Russia	Cyprus	NA	Crude oil and natural gas extraction	25,000 USD	49.00%
Yanbu Aramco Sinopec Refining Company Ltd. ("YASREF")	Saudi Arabia	Saudi Arabia	NA	Petroleum refining and processing	1,560 million USD	37.50%
2. Associates						
Sinopec Sichuan to East China Gas Pipeline Co., Ltd. ("Pipeline Ltd")	PRC	PRC	Quan Kai	Operation of natural gas pipelines and auxiliary facilities	200	50.00%
Sinopec Finance Company Limited ("Sinopec Finance")	PRC	PRC	Liu Yun	Provision of non-banking financial services	18,000	49.00%
Zhongtian Synergetic Energy Company Limited ("Zhongtian Synergetic Energy")	PRC	PRC	Peng Yi	Manufacturing of coal-chemical products	16,000	38.75%
China Aviation Oil Supply Company Limited ("China Aviation Oil")	PRC	PRC	Zhou Qiang	Marketing and distribution of refined petroleum products	3,800	29.00%
Caspian Investments Resources Ltd. ("CIR")	The Republic of Kazakhstan	British Virgin Islands	NA	Crude oil and natural gas extraction	10,000 USD	50.00%

All the joint ventures and associates above are limited companies.

12 LONG-TERM EQUITY INVESTMENTS *(Continued)*

(b) Major financial information of principal joint ventures

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

	FREP		BASF-YPC		Mansarovar		Taihu		YASREF	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Current assets										
Cash and cash equivalents	11,220	8,172	2,362	1,394	373	499	1,267	1,165	2,560	1,259
Other current assets	8,254	10,269	5,019	4,852	522	569	1,572	1,616	9,115	6,826
Total current assets	**19,474**	**18,441**	**7,381**	**6,246**	**895**	**1,068**	**2,839**	**2,781**	**11,675**	**8,085**
Non-current assets	**20,773**	**21,903**	**12,611**	**13,530**	**4,065**	**4,050**	**7,430**	**8,279**	**54,773**	**57,054**
Current liabilities										
Current financial liabilities (i)	(1,686)	(1,781)	(371)	(783)	—	—	(47)	(334)	(1,133)	(1,187)
Other current liabilities	(3,229)	(4,643)	(2,220)	(2,107)	(351)	(599)	(1,524)	(1,616)	(9,656)	(6,466)
Total current liabilities	**(4,915)**	**(6,424)**	**(2,591)**	**(2,890)**	**(351)**	**(599)**	**(1,571)**	**(1,950)**	**(10,789)**	**(7,653)**
Non-current liabilities										
Non-current financial liabilities (ii)	(18,521)	(19,985)	(1,174)	(1,492)	—	—	(54)	(49)	(41,361)	(43,028)
Other non-current liabilities	(237)	(252)	(10)	(10)	(1,485)	(895)	(1,125)	(2,130)	(952)	(1,004)
Total non-current liabilities	**(18,758)**	**(20,237)**	**(1,184)**	**(1,502)**	**(1,485)**	**(895)**	**(1,179)**	**(2,179)**	**(42,313)**	**(44,032)**
Net assets	**16,574**	**13,683**	**16,217**	**15,384**	**3,124**	**3,624**	**7,519**	**6,931**	**13,346**	**13,454**
Net assets attributable to owners of the Company	16,574	13,683	16,217	15,384	3,124	3,624	7,258	6,690	13,346	13,454
Net assets attributable to minority interests	—	—	—	—	—	—	261	241	—	—
Share of net assets from joint ventures	8,287	6,842	6,487	6,154	1,562	1,812	3,556	3,278	5,005	5,045
Other (iii)	—	—	—	—	—	—	637	743	—	—
Carrying Amounts	**8,287**	**6,842**	**6,487**	**6,154**	**1,562**	**1,812**	**4,193**	**4,021**	**5,005**	**5,045**

Summarised income statement

Six-month periods ended 30 June	FREP		BASF-YPC		Mansarovar		Taihu		YASREF	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	24,412	20,176	10,440	7,860	852	496	5,933	4,418	28,509	20,476
Interest income	100	50	14	9	—	2	65	—	9	10
Interest expense	(450)	(473)	(41)	(99)	—	(3)	(66)	(21)	(703)	(582)
Profit/(loss) before taxation	3,825	3,707	2,218	951	(442)	(804)	787	731	149	619
Tax expense	(934)	(905)	(563)	(233)	19	91	(211)	(249)	29	28
Profit/(loss) for the period	2,891	2,802	1,655	718	(423)	(713)	576	482	178	647
Other comprehensive (loss)/income	—	—	—	—	(76)	82	(211)	108	(286)	302
Total comprehensive income/(loss)	**2,891**	**2,802**	**1,655**	**718**	**(499)**	**(631)**	**365**	**590**	**(108)**	**949**
Dividends from joint ventures	—	—	329	155	—	—	—	—	—	—
Share of net profit/(loss) from joint ventures	1,445	1,401	662	287	(212)	(357)	272	228	67	243
Share of other comprehensive (loss)/income from joint ventures	—	—	—	—	(38)	41	(100)	51	(107)	113

The share of profit and other comprehensive income for the six-month period ended 30 June 2017 in all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 2,799 million (2016: RMB 1,740 million) and RMB 533 million (2016: other comprehensive loss RMB 88 million) respectively. As at 30 June 2017, the carrying amount of all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 28,660 million (31 December 2016: RMB 26,822 million).

Note:

(i) Excluding accounts payable, other payables.

(ii) Excluding provisions.

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

12 LONG-TERM EQUITY INVESTMENTS *(Continued)*

(c) Major financial information of principal associates

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

	Pipeline Ltd		Sinopec Finance		Zhongtian Synergetic Energy		China Aviation Oil		CIR	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Current assets	13,252	11,835	150,790	149,457	8,686	7,292	16,698	13,115	5,477	5,120
Non-current assets	24,656	25,395	15,274	16,478	50,828	50,301	5,653	5,671	3,099	3,842
Current liabilities	(4,367)	(5,009)	(141,825)	(142,386)	(7,220)	(8,078)	(7,496)	(6,297)	(949)	(928)
Non-current liabilities	(4)	(4)	(80)	(88)	(34,906)	(32,137)	(400)	(417)	(835)	(883)
Net assets	**33,537**	**32,217**	**24,159**	**23,461**	**17,388**	**17,378**	**14,455**	**12,072**	**6,792**	**7,151**
Net assets attributable to owners of the Company	33,537	32,217	24,159	23,461	17,388	17,378	12,694	10,743	6,792	7,151
Net assets attributable to minority interests	—	—	—	—	—	—	1,761	1,329	—	—
Share of net assets from associates	16,769	16,109	11,838	11,496	6,738	6,734	3,681	3,115	3,396	3,576
Other (iii)	6,691	6,691	—	—	—	—	—	—	—	—
Carrying Amounts	**23,460**	**22,800**	**11,838**	**11,496**	**6,738**	**6,734**	**3,681**	**3,115**	**3,396**	**3,576**

Summarised income statement

Six-month periods ended 30 June	Pipeline Ltd (iv)	Sinopec Finance		Zhongtian Synergetic Energy (v)		China Aviation Oil		CIR	
	2017 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	3,037	1,641	1,217	—	—	49,099	32,021	1,289	931
Profit/(loss) for the period	1,284	720	720	—	—	2,475	1,973	(197)	(905)
Other comprehensive (loss)/income	—	(22)	(31)	—	—	—	—	(162)	199
Total comprehensive income/(loss)	**1,284**	**698**	**689**	**—**	**—**	**2,475**	**1,973**	**(359)**	**(706)**
Dividends declared by associates	—	—	—	—	—	—	—	—	—
Share of profit/(loss) from associates	642	353	353	—	—	613	496	(99)	(453)
Share of other comprehensive (loss)/income from associates	—	(11)	(15)	—	—	—	—	(81)	100

The share of profit and other comprehensive income for the six-month period ended 30 June 2017 in all individually immaterial associates accounted for using equity method in aggregate was RMB 1,109 million (2016: RMB 660 million) and RMB 81 million (2016: other comprehensive loss RMB 103 million) respectively. As at 30 June 2017, the carrying amount of all individually immaterial associates accounted for using equity method in aggregate was RMB 18,989 million (31 December 2016: RMB 18,395 million).

Note:

(iv) On 12 December 2016, the Group entered into the Capital Injection Agreement in relation to Sinopec Sichuan To East China Gas Pipeline Co., Ltd. ("Pipeline Ltd"), a wholly-owned subsidiary of the Group, with China Life Insurance Company Limited ("China Life") and SDIC Communications Holding Co., Ltd. ("SDIC Holding") (the "Capital Injection Agreement"). Thereafter, the Group's equity interest in Pipeline Ltd was diluted from 100% to 50%. Consequently, the Group has deconsolidated Pipeline Ltd and started accounting for its 50% equity interest in Pipeline Ltd as an investment in associate company. Management is in the process of allocating the fair value to identifiable assets and liabilities of Pipeline Ltd. The accompanying summarised financial information of Pipeline Ltd (Note 12(c)) is based on management's preliminary fair value allocation which may be subject to further update.

(v) The main asset of Zhongtian Synergetic Energy was under construction during the period ended 30 June 2017.

13 FIXED ASSETS

The Group

	Plants and buildings RMB million	Oil and gas properties RMB million	Equipment, machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2017	114,920	650,685	892,936	1,658,541
Additions for the period	279	493	2,434	3,206
Transferred from construction in progress	1,088	6,857	12,241	20,186
Reclassifications	667	(159)	(508)	—
Decreases for the period	(743)	(116)	(9,188)	(10,047)
Exchange adjustments	(57)	(1,037)	(87)	(1,181)
Balance at 30 June 2017	**116,154**	**656,723**	**897,828**	**1,670,705**
Accumulated depreciation:				
Balance at 1 January 2017	45,243	404,919	463,023	913,185
Additions for the period	1,984	26,422	22,965	51,371
Reclassifications	78	(84)	6	—
Decreases for the period	(215)	(104)	(3,627)	(3,946)
Exchange adjustments	(24)	(768)	(41)	(833)
Balance at 30 June 2017	**47,066**	**430,385**	**482,326**	**959,777**
Provision for impairment losses:				
Balance at 1 January 2017	3,329	30,642	20,791	54,762
Additions for the period	47	3,487	427	3,961
Reclassifications	55	(40)	(15)	—
Decreases for the period	(6)	—	(44)	(50)
Exchange adjustments	—	(38)	(1)	(39)
Balance at 30 June 2017	**3,425**	**34,051**	**21,158**	**58,634**
Net book value:				
Balance at 30 June 2017	**65,663**	**192,287**	**394,344**	**652,294**
Balance at 31 December 2016	**66,348**	**215,124**	**409,122**	**690,594**

The Company

	Plants and buildings RMB million	Oil and gas properties RMB million	Equipment, machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2017	47,586	540,499	443,485	1,031,570
Additions for the period	—	355	525	880
Transferred from construction in progress	380	5,325	5,325	11,030
Reclassifications	198	(157)	(41)	—
Transferred from subsidiaries	58	—	561	619
Decreases for the period	(32)	(116)	(1,124)	(1,272)
Balance at 30 June 2017	**48,190**	**545,906**	**448,731**	**1,042,827**
Accumulated depreciation:				
Balance at 1 January 2017	21,401	337,394	255,451	614,246
Additions for the period	801	21,009	10,638	32,448
Reclassifications	46	(82)	36	—
Transferred from subsidiaries	31	—	493	524
Decreases for the period	(19)	(104)	(866)	(989)
Balance at 30 June 2017	**22,260**	**358,217**	**265,752**	**646,229**
Provision for impairment losses:				
Balance at 1 January 2017	1,623	26,727	15,954	44,304
Additions for the period	28	3,522	227	3,777
Reclassifications	39	(40)	1	—
Transferred from subsidiaries	16	—	19	35
Decreases for the period	—	—	(10)	(10)
Balance at 30 June 2017	**1,706**	**30,209**	**16,191**	**48,106**
Net book value:				
Balance at 30 June 2017	**24,224**	**157,480**	**166,788**	**348,492**
Balance at 31 December 2016	**24,562**	**176,378**	**172,080**	**373,020**

13 FIXED ASSETS *(Continued)*

The additions to oil and gas properties of the Group and the Company for six-month period ended 30 June 2017 included RMB 493 million (2016: RMB 1,700 million) (Note 31) and RMB 355 million (2016: RMB1,690 million), respectively of the estimated dismantlement costs for site restoration.

Impairment losses on fix assets for the six-month period ended 30 June 2017 primarily represent impairment losses of RMB 3,487 million (2016: nil) for the exploration and production ("E&P") segment, RMB 309 million (2016: RMB 118 million) for the chemicals segment, and RMB 165 million (2016: RMB 1,108 million) for the refining segment. The primary factors resulting in the E&P segment impairment loss were high operating cost for certain oil fields. The carrying values of these E&P properties were written down to recoverable amounts which were determined based on the present values of the expected future cash flows of the assets using a pre-tax discount rate 10.47% (2016: 10.80%). Further future downward revisions to the Group's oil price outlook by 5% or more would lead to further impairments which, in aggregate, are likely to be material. It is estimated that a general decrease of 5% in oil price, with all other variables held constant, would result in additional impairment loss in E&P segment by approximately RMB 2,401 million. It is estimated that a general increase of 5% in operating cost, with all other variables held constant, would result in additional impairment loss in E&P segment by approximately RMB 1,879 million. It is estimated that a general increase of 5% in discount rate, with all other variables held constant, would result in additional impairment loss in E&P segment by approximately RMB 809 million. The assets in the chemicals segment and refining segment were written down mainly due to the suspension of operations of certain production facilities.

At 30 June 2017 and 31 December 2016, the Group and the Company had no individually significant fixed assets which were pledged.

At 30 June 2017 and 31 December 2016, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 30 June 2017 and 31 December 2016, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

14 CONSTRUCTION IN PROGRESS

	The Group RMB million	The Company RMB million
Cost:		
Balance at 1 January 2017	131,274	49,689
Additions for the period	16,373	11,555
Disposals for the period	(3)	—
Transferred to subsidiaries	—	—
Dry hole costs written off	(3,937)	(3,543)
Transferred to fixed assets	(20,186)	(11,030)
Reclassification to other assets	(2,261)	(89)
Exchange adjustments	(43)	—
Balance at 30 June 2017	**121,217**	**46,582**
Provision for impairment losses:		
Balance at 1 January 2017	1,693	412
Additions for the period	—	—
Decreases for the period	(24)	—
Balance at 30 June 2017	**1,669**	**412**
Net book value:		
Balance at 30 June 2017	**119,548**	**46,170**
Balance at 31 December 2016	**129,581**	**49,277**

At 30 June 2017, major construction projects of the Group are as follows:

Project name	Budgeted amount RMB million	Balance at 1 January 2017 RMB million	Net change for the period RMB million	**Balance at 30 June 2017 RMB million**	Percentage of Completion %	Source of funding	**Accumulated interest capitalised at 30 June 2017 RMB million**
Zhongke Refine Integration Project	34,667	3,274	1,361	4,635	13%	Self-financing	—
Guangxi LNG Project	15,475	4,903	285	5,188	63%	Bank loans & self-financing	666
Tianjin LNG Project	13,639	8,213	(798)	7,415	65%	Bank loans & self-financing	142
Zhenhai Old Areas Structure Transformation Project	3,709	264	46	310	8%	Self-financing	—
Zhejiang Yong-Tai-Wen Refined Oil Pipeline Construction Project	1,804	1,244	103	1,347	75%	Bank loans & self-financing	35

15 INTANGIBLE ASSETS

The Group

	Land use rights RMB million	Patents RMB million	Non-patent technology RMB million	Operation rights RMB million	Others RMB million	Total RMB million
Cost:						
Balance at 1 January 2017	68,467	4,378	4,134	36,908	4,013	117,900
Additions for the period	2,956	28	18	9,016	592	12,610
Decreases for the period	(2,488)	—	(634)	(1)	(87)	(3,210)
Balance at 30 June 2017	**68,935**	**4,406**	**3,518**	**45,923**	**4,518**	**127,300**
Accumulated amortisation:						
Balance at 1 January 2017	14,015	3,261	2,259	9,892	2,596	32,023
Additions for the period	1,416	108	125	3,043	194	4,886
Decreases for the period	(690)	—	(10)	(1)	(10)	(711)
Balance at 30 June 2017	**14,741**	**3,369**	**2,374**	**12,934**	**2,780**	**36,198**
Provision for impairment losses:						
Balance at 1 January 2017	211	483	24	120	16	854
Additions for the period	8	1	—	14	1	24
Decreases for the period	(6)	—	—	—	—	(6)
Balance at 30 June 2017	**213**	**484**	**24**	**134**	**17**	**872**
Net book value:						
Balance at 30 June 2017	**53,981**	**553**	**1,120**	**32,855**	**1,721**	**90,230**
Balance at 31 December 2016	**54,241**	**634**	**1,851**	**26,896**	**1,401**	**85,023**

Amortisation of the intangible assets of the Group charged for the six-month period ended 30 June 2017 is RMB 2,173 million (2016: RMB 3,112 million).

16 GOODWILL

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

Name of investees	Principal activities	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Sinopec Beijing Yanshan Petrochemical Branch ("Sinopec Yanshan")	Manufacturing of intermediate petrochemical products and petroleum products	1,157	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	Manufacturing of intermediate petrochemical products and petroleum products	4,043	4,043
Sinopec (Hong Kong) Limited	Trading of petrochemical products	913	941
Other units without individual significant goodwill		212	212
Total		**6,325**	**6,353**

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 10.7% to 11.3% (2016: 10.4% to 11.0%). Cash flows beyond the one-year period are maintained constant. Based on the estimated recoverable amount, no impairment loss was recognised.

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

17 LONG-TERM DEFERRED EXPENSES

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

18 DEFERRED TAX ASSETS AND LIABILITIES

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

	Deferred tax assets		Deferred tax liabilities		Net balance	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Current						
Receivables and inventories	1,449	347	—	—	1,449	347
Accruals	655	391	—	—	655	391
Cash flow hedges	18	27	(299)	(242)	(281)	(215)
Non-current						
Fixed assets	11,397	11,264	(11,993)	(14,615)	(596)	(3,351)
Tax value of losses carried forward	2,151	2,477	—	—	2,151	2,477
Others	427	133	(190)	(229)	237	(96)
Deferred tax assets/(liabilities)	**16,097**	**14,639**	**(12,482)**	**(15,086)**	**3,615**	**(447)**

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

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Deferred tax assets	6,336	7,425
Deferred tax liabilities	6,336	7,425

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

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Deferred tax assets	9,761	7,214
Deferred tax liabilities	6,146	7,661

At 30 June 2017, certain subsidiaries of the Company did not recognise deferred tax of deductible loss carried forward of RMB 18,513 million (At 31 December 2016: RMB 19,194 million), of which RMB 1,637 million (2016: RMB 2,000 million) was incurred for the six-month period ended 30 June 2017, because it was not probable that the related tax benefit will be realised. These deductible losses carried forward of RMB 2,441 million, RMB 2,565 million, RMB 3,957 million, RMB 4,080 million, RMB 3,833 million and RMB 1,637 million will expire in 2017, 2018, 2019, 2020, 2021,2022 and after, respectively.

Periodically, management performed assessment on the probability that future taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have sufficient future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. During the six-month period ended 30 June 2017, write-down of deferred tax assets amounted to RMB 9 million (2016: RMB 43 million) (Note 49).

19 OTHER NON-CURRENT ASSETS

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

20 DETAILS OF IMPAIRMENT LOSSES

At 30 June 2017, impairment losses of the Group are analysed as follows:

	Note	Balance at 1 January 2017 RMB million	Provision for the period RMB million	Written back for the period RMB million	Written off for the period RMB million	Other (decrease)/ increase RMB million	**Balance at 30 June 2017 RMB million**
Allowance for doubtful accounts							
Included: Accounts receivable	7	683	39	(121)	(1)	(2)	598
Other receivables	8	1,349	18	(32)	(6)	(1)	1,328
Prepayments	9	31	7	—	—	—	38
		2,063	**64**	**(153)**	**(7)**	**(3)**	**1,964**
Inventories	10	920	204	(1)	(51)	(9)	1,063
Long-term equity investments	12	722	—	—	—	(8)	714
Fixed assets	13	54,762	3,961	—	(28)	(61)	58,634
Construction in progress	14	1,693	—	—	—	(24)	1,669
Intangible assets	15	854	1	—	—	17	872
Goodwill	16	7,663	—	—	—	—	7,663
Others		43	—	—	—	(10)	33
Total		**68,720**	**4,230**	**(154)**	**(86)**	**(98)**	**72,612**

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

21 SHORT-TERM LOANS

The Group's short-term loans represent:

	At 30 June 2017			At 31 December 2016		
	Original currency million	**Exchange rates**	**RMB million**	Original currency million	Exchange rates	RMB million
Short-term bank loans			19,063			11,944
– Renminbi loans			17,460			10,931
– US Dollar loans	237	6.7744	1,603	146	6.9370	1,013
Short-term loans from Sinopec Group Company and fellow subsidiaries			22,969			18,430
– Renminbi loans			983			2,858
– US Dollar loans	2,984	6.7744	20,213	1,957	6.9370	13,577
– HK Dollar loans	2,004	0.8679	1,739	2,202	0.8945	1,969
– Euro loans	1	7.7496	5	1	7.3068	5
– Singapore Dollar loans	6	4.9135	29	4	4.7995	21
Total			**42,032**			**30,374**

At 30 June 2017, the Group's interest rates on short-term loans were from interest 0.68% to 6.19% (At 31December 2016: from interest 0.68% to 6.19%). The majority of the above loans are by credit.

At 30 June 2017 and 31 December 2016, the Group had no significant overdue short-term loan.

22 BILLS PAYABLE

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

At 30 June 2017 and 31 December 2016, the Group had no overdue unpaid bills.

23 ACCOUNTS PAYABLE

At 30 June 2017 and 31 December 2016, the Group had no individually significant accounts payable aged over one year.

24 ADVANCES FROM CUSTOMERS

At 30 June 2017 and 31 December 2016, the Group had no individually significant advances from customers aged over one year.

25 EMPLOYEE BENEFITS PAYABLE

At 30 June 2017 and 31 December 2016, the Group's employee benefits payable primarily represented wages payable and social insurance payables.

26 TAXES PAYABLE

The Group

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Value-added tax payable	5,106	8,668
Consumption tax	15,509	29,682
Income tax	5,192	6,051
Mineral resources compensation fee	176	196
Other taxes	5,874	8,289
Total	**31,857**	**52,886**

27 OTHER PAYABLES

At 30 June 2017 and 31 December 2016, the Group's other payables primarily represented payables for constructions.

At 30 June 2017 and 31 December 2016, the Group had no individually significant other payables aged over three years.

28 NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

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

	At 30 June 2017			At 31 December 2016		
	Original currency million	Exchange rates	RMB million	Original currency million	Exchange rates	RMB million
Long-term bank loans						
– Renminbi loans			6,553			8,753
– US Dollar loans	4	6.7744	24	6	6.9370	42
			6,577			**8,795**
Long-term loans from Sinopec Group Company and fellow subsidiaries						
– Renminbi loans			—			150
			—			**150**
Long-term loans due within one year			**6,577**			**8,945**
Debentures payable due within one year			**18,266**			**29,500**
Others			**663**			**527**
Non-current liabilities due within one year			**25,506**			**38,972**

At 30 June 2017 and 31 December 2016, the Group had no significant overdue long-term loans.

29 LONG-TERM LOANS

The Group's long-term loans represent:

	Interest rate and final maturity	At 30 June 2017 Original currency million	Exchange rates	RMB million	At 31 December 2016 Original currency million	Exchange rates	RMB million
Long-term bank loans							
– Renminbi loans	Interest rates ranging from interest 1.08% to 4.41% per annum at 30 June 2017 with maturities through 2030			29,404			26,058
– US Dollar loans	Interest rates ranging from interest 1.55 % to 4.29 % per annum at 30 June 2017 with maturities through 2031	57	6.7744	386	61	6.9370	426
Less: Current portion				(6,577)			(8,795)
Long-term bank loans				**23,213**			**17,689**
Long-term loans from Sinopec Group Company and fellow subsidiaries							
– Renminbi loans	Interest rates ranging from interest free to 3.92 % per annum at 30 June 2017 with maturities through 2021			44,832			44,922
Less: Current portion				—			(150)
Long-term loans from Sinopec Group Company and fellow subsidiaries				**44,832**			**44,772**
Total				**68,045**			**62,461**

The maturity analysis of the Group's long-term loans is as follows:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Between one and two years	3,349	3,957
Between two and five years	57,816	56,725
After five years	6,880	1,779
Total	**68,045**	**62,461**

Long-term loans are primarily unsecured, and carried at amortised costs.

30 DEBENTURES PAYABLE

The Group

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Short-term corporate bonds (i)	**—**	**6,000**
Debentures payable:		
– Corporate Bonds (ii)	66,050	84,485
Less: Current portion	(18,266)	(29,500)
Total	**47,784**	**54,985**

Note:

(i) The company issued 182-day corporate bonds of face value RMB 6 billion to corporate investors in the PRC debenture market on 12 September 2016 at par value of RMB 100. The effective cost of the 182-day corporate bonds is 2.54% per annum. The short-term bonds were due on 14 March 2017 and have been fully paid by the Group at maturity.

(ii) These corporate bonds are carried at amortised cost, including USD denominated corporate bonds of RMB 18,550 million, and RMB denominated corporate bonds of RMB 47,500 million (31 December 2016: USD denominated corporate bonds of RMB 18,985 million, and RMB denominated corporate bonds of RMB 65,500 million). At 30 June 2017, corporate bonds of RMB 18,550 million (2016: RMB 18,985 million) are guaranteed by Sinopec Group Company.

31 PROVISIONS

Provisions primarily represent provision for future dismantlement costs of oil and gas properties. The Group has established certain standardised measures for the dismantlement of its retired oil and gas properties by making reference to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. Movement of provision of the Group's obligations for the dismantlement of its retired oil and gas properties is as follows:

	The Group RMB million
Balance at 1 January 2017	36,918
Provision for the period	493
Accretion expenses	659
Utilised for the period	(75)
Exchange adjustments	(66)
Balance at 30 June 2017	**37,929**

32 OTHER NON-CURRENT LIABILITIES

Other non-current liabilities primarily represent long-term payables, special payables and deferred income.

33 SHARE CAPITAL

The Group

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Registered, issued and fully paid:		
95,557,771,046 domestic listed A shares (2016: 95,557,771,046) of RMB 1.00 each	95,558	95,558
25,513,438,600 overseas listed H shares (2016: 25,513,438,600) of RMB 1.00 each	25,513	25,513
Total	**121,071**	**121,071**

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

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

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

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

During the year ended 31 December 2010, the Company issued 88,774 listed A shares with a par value of RMB 1.00 each, as a result of exercise of 188,292 warrants entitled to the Bonds with Warrants.

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

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

33 SHARE CAPITAL *(Continued)*

The Group *(Continued)*
On 14 February 2013, the Company issued 2,845,234,000 listed H shares ("the Placing") with a par value of RMB 1.00 each at the Placing Price of HKD 8.45 per share. The aggregate gross proceeds from the Placing amounted to approximately HKD 24,042,227,300.00 and the aggregate net proceeds (after deduction of the commissions and estimated expenses) amounted to approximately HKD 23,970,100,618.00.

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

During the year ended 31 December 2013, the Company issued 114,076 listed A shares with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2014, the Company issued 1,715,081,853 listed A shares with a par value of RMB 1.00 each, as a result of exercise of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2015, the Company issued 2,790,814,006 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

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

Capital management
Management optimises the structure of the Group's capital, which comprises of equity and debts and bonds. In order to maintain or adjust the capital structure of the Group, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans and bonds. Management monitors capital on the basis of the debt-to-capital ratio, which is calculated by dividing long-term loans (excluding current portion) and debentures payable by the total of equity attributable to owners of the Company and long-term loans (excluding current portion) and debentures payable, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio of the Group at a range considered reasonable. As at 30 June 2017, the debt-to-capital ratio and the liability-to-asset ratio of the Group were 13.9 % (2016: 14.2%) and 43.1 % (2016: 44.5%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 29 and 55, respectively.

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

34 CAPITAL RESERVE

The movements in capital reserve of the Group are as follows:

	RMB million
Balance at 1 January 2017	119,525
Others	4
Balance at 30 June 2017	**119,529**

Capital reserve represents mainly: (a) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation; (b) share premiums derived from issuances of H shares and A shares by the Company and excess of cash paid by investors over their proportionate shares in share capital, the proportionate shares of unexercised portion of the Bond with Warrants at the expiration date, and the amount transferred from the proportionate liability component and the derivative component of the converted portion of the 2011 Convertible Bonds; (c) difference between consideration paid for the combination of entities under common control and the transactions with minority interests over the carrying amount of the net assets acquired.

35 OTHER COMPREHENSIVE INCOME

The Group

(a) Each item of other comprehensive income and the influence of the income tax and the process of change to profit or loss

	Six-month period ended 30 June 2017		
	Before-tax amount RMB million	Tax effect RMB million	Net-of-tax amount RMB million
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognised during the period	3,406	(604)	2,802
(Add)/less: Adjustments of amounts transferred to initial carrying amount of hedged items	(89)	15	(74)
Total amounts transferred to profit or loss from other comprehensive income during the period	3,281	(567)	2,714
Subtotal	**214**	**(52)**	**162**
Changes in fair value of available-for-sale financial assets recognised during the period	(7)	—	(7)
Less: Total amounts transferred to profit or loss from other comprehensive income during the period	—	—	—
Subtotal	**(7)**	**—**	**(7)**
Share of other comprehensive income in associates and joint ventures	277	—	277
Subtotal	**277**	**—**	**277**
Translation difference in foreign currency statements	(1,542)	—	(1,542)
Subtotal	**(1,542)**	**—**	**(1,542)**
Other comprehensive income	**(1,058)**	**(52)**	**(1,110)**

	Six-month period ended 30 June 2016		
	Before-tax amount RMB million	Tax effect RMB million	Net-of-tax amount RMB million
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognised during the period	(513)	34	(479)
Less/(add): Adjustments of amounts transferred to initial carrying amount of hedged items	165	(27)	138
Total amounts transferred to profit or loss from other comprehensive income during the period	(2,827)	443	(2,384)
Subtotal	**2,149**	**(382)**	**1,767**
Changes in fair value of available-for-sale financial assets recognised during the period	(33)	—	(33)
Less: Total amounts transferred to profit or loss from other comprehensive income during the period	—	—	—
Subtotal	**(33)**	**—**	**(33)**
Share of other comprehensive income in associates and joint ventures	99	—	99
Subtotal	**99**	**—**	**99**
Translation difference in foreign currency statements	987	—	987
Subtotal	**987**	**—**	**987**
Other comprehensive income	**3,202**	**(382)**	**2,820**

35 OTHER COMPREHENSIVE INCOME *(Continued)*

The Group *(Continued)*

(b) Reconciliation of other comprehensive income

	Equity Attributable to shareholders of the Company					Minority interests	Total other comprehensive income
	The share of other comprehensive income which being reclassified to profit and loss in the future under equity method RMB Million	Changes in fair value of available-for-sale financial assets RMB Million	Cash flow hedges RMB Million	Translation difference in foreign currency statements RMB Million	Subtotal RMB Million	RMB Million	RMB Million
31 December 2015	(6,557)	114	(838)	(703)	(7,984)	(1,169)	(9,153)
Changes in 2016	2,827	(23)	1,765	414	4,983	(2,163)	2,820
30 June 2016	(3,730)	91	927	(289)	(3,001)	(3,332)	(6,333)
31 December 2016	(4,161)	97	1,132	2,000	(932)	(1,888)	(2,820)
Changes in 2017	195	(5)	133	(965)	(642)	(468)	(1,110)
30 June 2017	(3,966)	92	1,265	1,035	(1,574)	(2,356)	(3,930)

36 SPECIFIC RESERVE

According to relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain refining and chemicals products or based on the production volume of crude oil and natural gas. The movements of specific reserve are as follows:

	The Group RMB million
Balance at 1 January 2017	765
Provision for the period	1,726
Utilisation for the period	(952)
Balance at 30 June 2017	**1,539**

37 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group		
	Statutory surplus reserve RMB million	Discretionary surplus reserve RMB million	Total RMB million
Balance at 1 January 2017	79,640	117,000	196,640
Appropriation	—	—	—
Balance at 30 June 2017	**79,640**	**117,000**	**196,640**

The PRC Company Law and the Articles of Association of the Company have set out the following profit appropriation plans:

(a) 10% of the net profit is transferred to the statutory surplus reserve. In the event that the reserve balance reaches 50% of the registered capital, no transfer is needed;

(b) After the transfer to the statutory surplus reserve, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the shareholders' meeting.

38 OPERATING INCOME AND OPERATING COSTS

	Six-month periods ended 30 June			
	The Group		The Company	
	2017	2016	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million
Income from principal operations	1,137,828	856,796	397,542	334,227
Income from other operations	28,009	22,424	13,868	11,922
Total	**1,165,837**	**879,220**	**411,410**	**346,149**
Operating costs	**942,602**	**665,193**	**306,503**	**237,835**

The income from principal operations mainly represents revenue from sales of crude oil, natural gas, refined petroleum products and chemical products. The income from other operations mainly represents revenue from sale of materials, service, rental income and others. Operating costs primarily represent the products cost related to the principal operations. The Group's segmental information is set out in Note 57.

39 TAXES AND SURCHARGES

The Group

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Consumption tax	95,398	95,030
City construction tax	9,022	8,899
Education surcharge	6,876	6,729
Resources tax	2,396	1,776
Other taxes	2,605	397
Total	**116,297**	**112,831**

The applicable tax rate of the taxes and surcharges are set out in Note 4.

40 FINANCIAL EXPENSES

The Group

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Interest expenses incurred	3,602	5,078
Less: Capitalised interest expenses	282	409
Net interest expenses	**3,320**	**4,669**
Accretion expenses (Note 31)	659	495
Interest income	(2,457)	(1,358)
Net foreign exchange (gain)/loss	(233)	478
Total	**1,289**	**4,284**

The interest rates per annum at which borrowing costs were capitalised during the six-month period ended 30 June 2017 by the Group ranged from 3.92% to 4.41% (2016: 3.3% to 5.6%).

41 CLASSIFICATION OF EXPENSES BY NATURE

The operation costs, selling and distribution expenses, general and administrative expenses and exploration expenses (including dry holes) in consolidated income statement classified by nature are as follows:

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Purchased crude oil, products and operating supplies and expenses	887,028	615,419
Personnel expenses	31,328	29,063
Depreciation, depletion and amortisation	55,217	49,105
Exploration expenses (including dry holes)	4,542	4,730
Other expenses	30,887	33,594
Total	**1,009,002**	**731,911**

42 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and written-off of unsuccessful dry hole costs.

43 IMPAIRMENT LOSSES

The Group

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Receivables (Note 7, 8, 9)	(89)	(90)
Inventories (Note 10)	203	256
Fixed assets (Note 13)	3,961	1,256
Construction in progress (Note 14)	—	1
Intangible assets (Note 15)	1	—
Total	**4,076**	**1,423**

44 GAIN FROM CHANGES IN FAIR VALUE

The Group

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Changes in fair value of financial assets and financial liabilities at fair value through profit, net	244	8
Unrealised gains from ineffective portion cash flow hedges, net	86	130
Others	39	(25)
Total	**369**	**113**

45 INVESTMENT INCOME

	Six-month periods ended 30 June			
	The Group		The Company	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million
Income from investment of subsidiaries accounted for under cost method	—	—	5,334	6,410
Income from investment accounted for under equity method	7,651	4,598	3,013	1,690
Investment (loss)/income from disposal of long-term equity investments	—	(2)	1	(6)
Investment income from holding/disposal of available-for-sale financial assets	220	34	50	—
Investment income from disposal of financial assets and liabilities at fair value through profit or loss	159	242	—	—
Gains from ineffective portion of cash flow hedge	56	455	—	—
Others	66	67	475	656
Total	**8,152**	**5,394**	**8,873**	**8,750**

46 OTHER INCOME

Other income is mainly the government grants related to the business activities.

47 NON-OPERATING INCOME

The Group

	Six-month periods ended 30 June	
	2017 RMB million	2016 RMB million
Gain on disposal of non-current assets	92	131
Government grants	65	971
Others	676	255
Total	**833**	**1,357**

48 NON-OPERATING EXPENSES

The Group

	Six-month periods ended 30 June	
	2017 RMB million	2016 RMB million
Loss on disposal of non-current assets	190	124
Fines, penalties and compensation	21	36
Donations	13	48
Others	592	667
Total	**816**	**875**

49 INCOME TAX EXPENSE

The Group

	Six-month periods ended 30 June 2017 RMB million	2016 RMB million
Provision for income tax for the period	12,258	8,031
Deferred taxation	(3,988)	319
Under-provision for income tax in respect of preceding year	645	29
Total	**8,915**	**8,379**

Reconciliation between actual income tax expense and accounting profit at applicable tax rates is as follows:

	Six-month periods ended 30 June 2017 RMB million	2016 RMB million
Profit before taxation	45,032	34,760
Expected income tax expense at a tax rate of 25%	11,258	8,690
Tax effect of non-deductible expenses	357	337
Tax effect of non-taxable income	(2,032)	(1,170)
Tax effect of preferential tax rate (i)	(422)	215
Effect of difference between income taxes at foreign operations tax rate and the PRC statutory tax rate (ii)	(716)	(556)
Tax effect of utilisation of previously unrecognised tax losses and temporary differences	(593)	(345)
Tax effect of tax losses not recognised	409	500
Write-down of deferred tax assets	9	43
Adjustment for under provision for income tax in respect of preceding years	645	665
Actual income tax expense	**8,915**	**8,379**

Note:

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

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

50 DIVIDENDS

(a) Dividends of ordinary shares declared after the balance sheet date

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 25 August 2017, the directors authorised to declare the interim dividends for the six-month period ended 30 June 2017 of RMB 0.10 (2016: RMB 0.079) per share totaling RMB 12,107 million (2016: RMB 9,565 million). Dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

(b) Dividends of ordinary shares declared during the period

Pursuant to the shareholders' approval at the Annual General Meeting on 28 June 2017, a final dividend of RMB 0.17 per share totaling RMB 20,582 million according to total shares on 18 July 2017 was approved. All dividends have been paid in July 2017.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2016, a final dividend of RMB 0.06 per share totaling RMB 7,264 million according to total shares on 23 June 2016 was approved. All dividends have been paid in the six-month period ended 30 June 2016.

51 SUPPLEMENTAL INFORMATION TO THE CASH FLOW STATEMENT

The Group

(a) Reconciliation of net profit to cash flows from operating activities:

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Net profit	36,117	26,381
Add: Impairment losses on assets	4,076	1,423
Depreciation of fixed assets	50,862	44,869
Amortisation of intangible assets and long-term deferred expenses	4,355	4,236
Dry hole costs written off	3,937	3,619
Net loss/(gain) on disposal of non-current assets	98	(7)
Fair value gain	(369)	(113)
Financial expenses	1,201	3,740
Investment income	(7,993)	(4,697)
(Increase)/decrease in deferred tax assets	(1,512)	899
Decrease in deferred tax liabilities	(2,476)	(580)
Increase in inventories	(10,750)	(4,091)
Safety fund reserve	870	706
Decrease/(increase) in operating receivables	2,213	(9,959)
(Decrease)/increase in operating payables	(19,782)	9,686
Net cash flow from operating activities	**60,847**	**76,112**

(b) Net change in cash:

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Cash balance at the end of the period	129,127	73,250
Less: Cash at the beginning of the period	124,468	68,933
Net increase of cash	**4,659**	**4,317**

(c) The analysis of cash held by the Group is as follows:

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Cash at bank and on hand		
– Cash on hand	11	12
– Demand deposits	129,116	73,238
Cash at the end of the period	**129,127**	**73,250**

52 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Related parties having the ability to exercise control over the Group

The name of the company	:	China Petrochemical Corporation
Organisation code	:	10169286-X
Registered address	:	No. 22, Chaoyangmen North Street, Chaoyang District, Beijing
Principal activities	:	Exploration, production, storage and transportation (including pipeline transportation), sales and utilisation of crude oil and natural gas; refining; wholesale and retail of gasoline, kerosene and diesel; production, sales, storage and transportation of petrochemical and other chemical products; industrial investment and investment management; exploration, construction, installation and maintenance of petroleum and petrochemical constructions and equipment; manufacturing electrical equipment; research, development, application and consulting services of information technology and alternative energy products; import & export of goods and technology.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Wang Yupu
Registered capital	:	RMB 274,867 million

Sinopec Group Company is an enterprise controlled by the PRC government. Sinopec Group Company directly and indirectly holds 71.32% shareholding of the Company.

52 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(2) Related parties not having the ability to exercise control over the Group

Related parties under common control of a parent company with the Company:
Sinopec Finance (Note)
Sinopec Shengli Petroleum Administration Bureau
Sinopec Zhongyuan Petroleum Exploration Bureau
Sinopec Assets Management Corporation
Sinopec Engineering Incorporation
Sinopec Century Bright Capital Investment Limited
Sinopec Petroleum Storage and Reserve Limited

Associates of the Group:
Pipeline Ltd
Sinopec Finance
Zhongtian Synergetic Energy
China Aviation Oil
CIR

Joint ventures of the Group:
FREP
BASF-YPC
Mansarovar
Taihu
YASREF

Note: Sinopec Finance is under common control of a parent company with the Company and is also the associate of the Group.

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

	Note	The Group Six-month periods ended 30 June **2017** **RMB million**	 2016 RMB million
Sales of goods	(i)	115,853	83,694
Purchases	(ii)	72,881	55,676
Transportation and storage	(iii)	3,682	561
Exploration and development services	(iv)	5,723	5,701
Production related services	(v)	5,501	2,943
Ancillary and social services	(vi)	3,209	3,169
Operating lease charges for land	(vii)	3,988	5,264
Operating lease charges for buildings	(vii)	207	160
Other operating lease charges	(vii)	390	189
Agency commission income	(viii)	63	60
Interest income	(ix)	322	98
Interest expense	(x)	228	600
Net deposits (placed with)/withdrawn from related parties	(ix)	(5,088)	6,538
Net loans obtained from/(repaid to) related parties	(xi)	4,449	(1,201)

The amounts set out in the table above in respect of the six-month periods ended 30 June 2017 and 2016 represent the relevant costs and income as determined by the corresponding contracts with the related parties.

Included in the transactions disclosed above, for the six-month period ended 30 June 2017 are: a) purchases by the Group from Sinopec Group Company and fellow subsidiaries amounting to RMB 51,507 million (2016: RMB 52,786 million) comprising purchases of products and services (i.e. procurement, transportation and storage, exploration and development services and production related services) of RMB 43,875 million (2016: RMB 43,593 million), ancillary and social services provided by Sinopec Group Company and fellow subsidiaries of RMB 3,209 million (2016: RMB 3,169 million), operating lease charges for land and buildings paid by the Group of RMB 3,988 million and 207 million (2016: RMB 5,264 million and RMB 160 million), respectively and interest expenses of RMB 228 million (2016: RMB 600 million); and b) sales by the Group to Sinopec Group Company and fellow subsidiaries amounting to RMB 23,992 million (2016: RMB 20,889 million), comprising RMB 23,659 million (2016: RMB 20,777 million) for sales of goods, RMB 322 million (2016: RMB 98 million) for interest income and RMB 11 million (2016: RMB 14 million) for agency commission income.

As at 30 June 2017 and 31 December 2016, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries, associates and joint ventures, except for the disclosure set out in Note 56(b). Guarantees given to banks by the Group in respect of banking facilities to associates and joint ventures are disclosed in Note 56(b).

52 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

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

Note:

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

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

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

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

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

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

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

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

(ix) Interest income represents interest received from deposits placed with Sinopec Finance and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate.

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

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

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the six-month period ended 30 June 2017. The terms of these agreements are summarised as follows:

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

- the government-prescribed price;
- where there is no government-prescribed price, the government guidance price;
- where there is neither a government-prescribed price nor a government guidance price, the market price; or
- where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

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

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

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

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

52 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(4) Balances with Sinopec Group Company and fellow subsidiaries, associates and joint ventures

The balances with the Group's related parties at 30 June 2017 and 31 December 2016 are as follows:

	The ultimate holding company		Other related companies	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Cash and cash equivalents	—	—	45,161	40,073
Accounts receivable	—	25	7,594	10,953
Prepayments and other current assets	57	33	13,392	13,397
Other non-current assets	—	—	20,843	20,385
Accounts payable	12	3	11,113	19,416
Advances from customers	12	13	2,616	1,969
Other payables	14,815	178	11,417	19,430
Other non-current liabilities	—	—	10,162	9,998
Short-term loans	—	—	22,969	18,430
Long-term loans (including current portion) (Note)	—	—	44,832	44,922

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

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and joint ventures, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 21 and Note 29.

As at and for the six-month period ended 30 June 2017, and as at and for the year ended 31 December 2016, no individually significant impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and joint ventures.

(5) Key management personnel emoluments

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

	Six-month periods ended 30 June	
	2017 RMB thousand	2016 RMB thousand
Short-term employee benefits	2,501	3,066
Retirement scheme contributions	183	268
Total	**2,684**	**3,334**

53 PRINCIPAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in Note 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

53 PRINCIPAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(a) Oil and gas properties and reserves

The accounting for the exploration and production segment's oil and gas activities is subject to accounting rules that are unique to the oil and gas industry. The Group has used the successful efforts method to account for oil and gas business activities. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense. These costs primarily include dry hole costs, seismic costs and other exploratory costs.

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates. Oil and gas reserves have a direct impact on the assessment of the recoverability of the carrying amounts of oil and gas properties reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by changes in depreciation expense or an immediate write-down of the property's carrying amount.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in the similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Capitalised costs of proved oil and gas properties are amortised on a unit-of-production method based on volumes produced and reserves.

(b) Impairment for assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "ASBE 8 – Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the fair value less costs to sell and the present value of expected future cash flows. It is difficult to precisely estimate the fair value because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value of expected future cash flows, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to sales volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling price and amount of operating costs.

(c) Depreciation

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

(d) Allowances for doubtful accounts

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

(e) Allowance for diminution in value of inventories

If the costs of inventories become higher than their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories would be higher than estimated.

54 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries have been consolidated into the Group's financial statements for the six-month period ended 30 June 2017. The following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group:

Full name of enterprise	Principal activities	Registered capital/ paid-up capital million	Actual investment at 30 June 2017 million	Percentage of equity interest/ voting right held by the Group %	Minority Interests at 30 June June 2017 RMB million
(a) Subsidiaries acquired through group restructuring:					
China Petrochemical International Company Limited	Trading of petrochemical products	RMB 1,400	RMB 1,856	100.00	27
China International United Petroleum and Chemical Company Limited	Trading of crude oil and petrochemical products	RMB 3,000	RMB 4,585	100.00	3,968
Sinopec Catalyst Company Limited	Production and sale of catalyst products	RMB 1,500	RMB 1,562	100.00	181
Sinopec Yangzi Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 13,203	RMB 15,651	100.00	—
Sinopec Pipeline Storage & Transportation Company Limited	Pipeline storage and transportation of crude oil	RMB 12,000	RMB 12,000	100.00	—
Sinopec Lubricant Company Limited	Production and sale of refined petroleum products, lubricant base oil, and petrochemical materials	RMB 3,374	RMB 3,374	100.00	52
Sinopec Yizheng Chemical Fibre Limited Liability Company	Production and sale of polyester chips and polyester fibre	RMB 4,000	RMB 6,713	100.00	—
Sinopec Marketing Company Limited ("Marketing Company")	Marketing and distribution of refined petroleum products	RMB 28,403	RMB 20,000	70.42	67,820
Sinopec Kantons Holdings Limited ("Sinopec Kantons")	Trading of crude oil and petroleum products	HKD 248	HKD 3,952	60.34	3,666
Sinopec Shanghai Petrochemical Company Limited ("Shanghai Petrochemical")	Manufacturing of synthetic fibre, resin and plastics, intermediate petrochemical products and petroleum products	RMB 10,800	RMB 5,820	50.56	12,473
Fujian Petrochemical Company Limited ("Fujian Petrochemical") (i)	Manufacturing of plastics, intermediate petrochemical products and petroleum products	RMB 5,745	RMB 3,161	50.00	4,662
(b) Subsidiaries established by the Group:					
Sinopec International Petroleum Exploration and Production Limited ("SIPL")	Investment in exploration, production and sale of petroleum and natural gas	RMB 8,000	RMB 8,000	100.00	15,260
Sinopec Overseas Investment Holding Limited ("SOIH")	Investment holding	USD 1,638	USD 1,638	100.00	53
Sinopec Chemical Sales Company Limited	Marketing and distribution of petrochemical products	RMB 1,000	RMB 1,165	100.00	57
Sinopec Great Wall Energy & Chemical Company Limited	Coal chemical industry investment management, production and sale of coal chemical products	RMB 20,739	RMB 20,773	100.00	156
Sinopec Beihai Refining and Chemical Limited Liability Company	Import and processing of crude oil, production, storage and sale of petroleum products and petrochemical products	RMB 5,294	RMB 5,240	98.98	96
Sinopec Qingdao Refining and Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 5,000	RMB 4,250	85.00	1,294
Sinopec-SK(Wuhan) Petrochemical Company Limited ("Zhonghan Wuhan")	Production, sale, research and development of ethylene and downstream byproducts	RMB 6,270	RMB 4,076	65.00	3,517
(c) Subsidiaries acquired through business combination under common control:					
Sinopec Hainan Refining and Chemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 3,986	RMB 2,990	75.00	2,164
Sinopec Qingdao Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 1,595	RMB 7,233	100.00	—
Gaoqiao Petrochemical Company Limited (Note 1)	Manufacturing of intermediate petrochemical products and petroleum products	RMB 10,000	RMB 4,804	55.00	4,621
(d) Subsidiaries acquired through business combination not under common control:					
Sinopec Zhanjiang Dongxing Petrochemical Company Limited	Manufacturing of intermediate petrochemical products and petroleum products	RMB 4,397	RMB 3,225	75.00	1,046

* The minority interests of subsidiaries which the Group holds 100% of equity interests at the end of the period are the minority interests of their subsidiaries.

Except for Sinopec Kantons and SOIH, which are incorporated in Bermuda and Hong Kong, respectively, all of the above principal subsidiaries are incorporated and operate their businesses principally in the PRC.

Note:

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

54 PRINCIPAL SUBSIDIARIES *(Continued)*

Summarised financial information on subsidiaries with material minority interests

Set out below are the summarised financial information which the amount before inter-company eliminations for each subsidiary that has minority interests that are material to the Group.

Summarised consolidated balance sheet

	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Zhonghan Wuhan	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Current assets	131,655	121,260	18,884	18,116	18,262	14,876	567	926	1,130	1,352	1,616	1,489
Current liabilities	(161,987)	(168,366)	(7,394)	(824)	(12,219)	(8,942)	(157)	(812)	(2,645)	(2,891)	(5,605)	(7,521)
Net current (liabilities)/assets	**(30,332)**	**(47,106)**	**11,490**	**17,292**	**6,043**	**5,934**	**410**	**114**	**(1,515)**	**(1,539)**	**(3,989)**	**(6,032)**
Non-current assets	243,708	246,514	38,183	40,067	19,039	19,248	9,635	7,845	13,280	13,228	14,058	14,686
Non-current liabilities	(1,712)	(1,460)	(31,249)	(39,322)	(145)	(150)	(721)	(721)	(2,570)	(3,101)	(21)	–
Net non-current assets	**241,996**	**245,054**	**6,934**	**745**	**18,894**	**19,098**	**8,914**	**7,124**	**10,710**	**10,127**	**14,037**	**14,686**

Summarised consolidated statement of comprehensive income and cash flow

Six-month periods ended 30 June	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Zhonghan Wuhan	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	604,612	499,651	2,756	2,449	43,107	36,993	3,003	2,420	835	725	8,045	4,196
Profit/(loss) for the period	14,168	12,436	561	(166)	2,580	3,102	1,510	1,435	621	431	1,439	46
Total comprehensive income	13,902	12,625	137	265	2,580	3,102	1,510	1,435	704	291	1,439	46
Comprehensive income attributable to minority interests	4,600	4,134	7	312	1,278	1,536	755	718	270	115	504	16
Dividends paid to minority interests	440	1,071	–	–	1,339	559	–	–	30	21	–	–
Net cash generated from/ (used in) operating activities	17,563	18,615	1,976	1,131	2,359	4,645	(578)	93	824	650	1,296	800

55 COMMITMENTS

Operating lease commitments

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

At 30 June 2017 and 31 December 2016, the future minimum lease payments of the Group under operating leases are as follows:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Within one year	10,836	14,917
Between one and two years	11,070	14,228
Between two and three years	10,296	13,966
Between three and four years	10,069	13,217
Between four and five years	9,919	12,980
After five years	201,329	275,570
Total	**253,519**	**344,878**

Capital commitments

At 30 June 2017 and 31 December 2016, the capital commitments of the Group are as follows:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Authorised and contracted for (i)	116,385	116,379
Authorised but not contracted for	53,299	31,720
Total	**169,684**	**148,099**

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

Note:

(i) The investment commitments of the Group is RMB 5,326 million (2016: RMB 4,173 million).

55 COMMITMENTS *(Continued)*

Commitments to joint ventures

Pursuant to certain of the joint venture agreements entered into by the Group, the Group is obliged to purchase products from the joint ventures based on market prices.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of the production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually and recognised in profit and loss.

Estimated future annual payments of the Group are as follows:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Within one year	209	263
Between one and two years	76	123
Between two and three years	24	25
Between three and four years	25	24
Between four and five years	25	25
After five years	859	867
Total	**1,218**	**1,327**

The implementation of commitments in previous year and the Group's commitments did not have material discrepancy.

56 CONTINGENT LIABILITIES

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.

(b) At 30 June 2017 and 31 December 2016, guarantees by the Group in respect of facilities granted to the parties below are as follows:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Joint ventures	985	658
Associates (i)	12,734	11,545
Others	10,586	10,669
Total	**24,305**	**22,872**

(i) The Group provided a guarantee in respect to standby credit facilities granted to Zhongtian Synergetic Energy by banks amount to RMB 17,050 million. As at 30 June 2017, the amount withdrawn by Zhongtian Synergetic Energy from banks and guaranteed by the Group was RMB 12,734 million.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are reliably estimable. At 30 June 2017 and 31 December 2016, it was not probable that the Group will be required to make payments under the guarantees. Thus no liabilities have been accrued for a loss related to the Group's obligation under these guarantee arrangements.

Environmental contingencies

Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 2,786 million for the six-month period ended 30 June 2017 (2016: RMB 2,508 million).

56 CONTINGENT LIABILITIES *(Continued)*

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

57 SEGMENT REPORTING

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

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

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

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

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

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

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

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

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

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

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Segment assets include all tangible and intangible assets, except for cash at bank and on hand, long-term equity investments, deferred tax assets and other unallocated assets. Segment liabilities exclude short-term loans, short-term debentures payable, non-current liabilities due within one year, long-term loans, debentures payable, deferred tax liabilities, other non-current liabilities and other unallocated liabilities.

57 SEGMENT REPORTING *(Continued)*

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

Reportable information on the Group's operating segments is as follows:

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Income from principal operations		
Exploration and production		
External sales	33,053	22,960
Inter-segment sales	37,395	26,162
	70,448	**49,122**
Refining		
External sales	64,292	49,622
Inter-segment sales	421,539	345,251
	485,831	**394,873**
Marketing and distribution		
External sales	589,475	489,025
Inter-segment sales	1,818	1,282
	591,293	**490,307**
Chemicals		
External sales	178,665	126,293
Inter-segment sales	22,948	17,415
	201,613	**143,708**
Corporate and others		
External sales	272,343	168,896
Inter-segment sales	215,148	143,119
	487,491	**312,015**
Elimination of inter-segment sales	(698,848)	(533,229)
Consolidated income from principal operations	**1,137,828**	**856,796**
Income from other operations		
Exploration and production	3,661	3,387
Refining	2,341	2,096
Marketing and distribution	14,667	10,662
Chemicals	6,816	5,478
Corporate and others	524	801
Consolidated income from other operations	**28,009**	**22,424**
Consolidated operating income	**1,165,837**	**879,220**

Financial Statements (PRC)

57 SEGMENT REPORTING *(Continued)*

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Operating (loss)/profit		
By segment		
Exploration and production	(18,799)	(22,293)
Refining	28,320	32,176
Marketing and distribution	15,977	15,056
Chemicals	11,917	9,473
Corporate and others	259	71
Elimination	(1,212)	(1,428)
Total segment operating profit	**36,462**	**33,055**
Investment income/(loss)		
Exploration and production	923	(458)
Refining	419	1,008
Marketing and distribution	1,535	1,435
Chemicals	4,357	2,568
Corporate and others	918	841
Total segment investment income	**8,152**	**5,394**
Financial expenses	(1,289)	(4,284)
Gain from changes in fair value	369	113
Other income	1,321	—
Operating profit	**45,015**	**34,278**
Add: Non-operating income	833	1,357
Less: Non-operating expenses	816	875
Profit before taxation	**45,032**	**34,760**

	At 30 June	At 31 December
	2017	2016
	RMB million	RMB million
Assets		
Segment assets		
Exploration and production	366,924	402,476
Refining	259,145	260,903
Marketing and distribution	295,060	292,328
Chemicals	139,120	144,371
Corporate and others	95,730	95,263
Total segment assets	**1,155,979**	**1,195,341**
Cash at bank and on hand	160,822	142,497
Long-term equity investments	122,296	116,812
Deferred tax assets	9,761	7,214
Other unallocated assets	38,680	36,745
Total assets	**1,487,538**	**1,498,609**
Liabilities		
Segment liabilities		
Exploration and production	84,730	95,883
Refining	59,576	82,170
Marketing and distribution	141,099	132,922
Chemicals	30,506	31,989
Corporate and others	90,319	97,078
Total segment liabilities	**406,230**	**440,042**
Short-term loans	42,032	30,374
Non-current liabilities due within one year	25,506	38,972
Long-term loans	68,045	62,461
Debentures payable	47,784	54,985
Deferred tax liabilities	6,146	7,661
Other non-current liabilities	17,121	16,136
Other unallocated liabilities	28,848	15,453
Total liabilities	**641,712**	**666,084**

57 SEGMENT REPORTING *(Continued)*

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

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Capital expenditure		
Exploration and production	6,870	5,168
Refining	3,672	2,774
Marketing and distribution	2,500	2,610
Chemicals	2,594	2,440
Corporate and others	317	482
	15,953	**13,474**
Depreciation, depletion and amortisation		
Exploration and production	32,097	26,348
Refining	8,669	8,488
Marketing and distribution	7,575	7,038
Chemicals	5,970	6,300
Corporate and others	906	931
	55,217	**49,105**
Impairment losses on long-lived assets		
Exploration and production	3,487	—
Refining	166	1,108
Marketing and distribution	—	31
Chemicals	309	118
	3,962	**1,257**

(2) Geographical information

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
External sales		
Mainland China	865,869	704,300
Others	299,968	174,920
	1,165,837	**879,220**

	At 30 June	At 31 December
	2017	2016
	RMB million	RMB million
Non-current assets		
Mainland China	967,644	1,000,209
Others	42,636	45,887
	1,010,280	**1,046,096**

58 FINANCIAL INSTRUMENTS

Overview

Financial assets of the Group include cash at bank, equity investments other than long-term equity investment, accounts receivable, bills receivable, available-for-sale financial assets, derivative financial instruments and other receivables. Financial liabilities of the Group include short-term and long-term loans, accounts payable, bills payable, debentures payable, employee benefits payable, derivative financial instruments and other payables.

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

- credit risk;
- liquidity risk;
- market risk;

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

58 FINANCIAL INSTRUMENTS *(Continued)*

Overview *(Continued)*

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institution in the PRC with acceptable credit ratings. The majority of the Group's accounts receivable relates to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. No single customer accounted for greater than 10% of total accounts receivable at 30 June 2017, except for the amounts due from Sinopec Group Company and fellow subsidiaries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

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

Liquidity risk

Liquidity risk is the risk that the Group encounters short fall of capital when meeting its obligation of financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed capital conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 30 June 2017, the Group has standby credit facilities with several PRC financial institutions which provide the Group to borrow up to RMB 366,899 million (2016: RMB 256,375 million) on an unsecured basis, at a weighted average interest rate of 3.24 % (2016: 3.57 %). At 30 June 2017, the Group's outstanding borrowings under these facilities were RMB 48,855 million (2016: RMB 36,933 million) and were included in loans.

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

	At 30 June 2017					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within one year or on demand RMB million	More than one year but less than two years RMB million	More than two years but less than five years RMB million	More than five years RMB million
Short-term loans	42,032	42,534	42,534	—	—	—
Non-current liabilities due within one year	25,506	25,909	25,909	—	—	—
Long-term loans	68,045	71,396	1,008	4,298	58,963	7,127
Debentures payable	47,784	57,091	1,792	17,468	22,760	15,071
Bills payable	6,162	6,162	6,162	—	—	—
Accounts payable	170,116	170,116	170,116	—	—	—
Dividends payable	22,336	22,336	22,336	—	—	—
Other payables and employee benefits payable	68,361	68,361	68,361	—	—	—
Total	**450,342**	**463,905**	**338,218**	**21,766**	**81,723**	**22,198**

58 FINANCIAL INSTRUMENTS *(Continued)*

Liquidity risk *(Continued)*

	At 31 December 2016					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within one year or on demand RMB million	More than one year but less than two years RMB million	More than two years but less than five years RMB million	More than five years RMB million
Short-term loans	30,374	30,708	30,708	—	—	—
Non-current liabilities due within one year	38,972	39,934	39,934	—	—	—
Short-term debentures payable	6,000	6,030	6,030	—	—	—
Long-term loans	62,461	64,566	900	4,652	57,262	1,752
Debentures payable	54,985	65,503	1,932	24,717	16,069	22,785
Bills payable	5,828	5,828	5,828	—	—	—
Accounts payable	174,301	174,301	174,301	—	—	—
Dividends payable	2,006	2,006	2,006	—	—	—
Other payables and employee benefits payable	79,248	79,248	79,248	—	—	—
Total	**454,175**	**468,124**	**340,887**	**29,369**	**73,331**	**24,537**

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's short-term and long-term capital requirements.

Market risk

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

(a) Currency risk

Currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's currency risk exposure primarily relates to short-term and long-term debts denominated in US Dollars, and the Group enters into foreign exchange contracts to manage currency risk exposure.

Included in short-term and long-term debts denominated are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

The Group

	At 30 June 2017 million	At 31 December 2016 million
Gross exposure arising from loans and borrowings		
US Dollars	USD 156	USD 126

A 5 percent strengthening/weakening of Renminbi against the following currencies at 30 June 2017 and 31 December 2016 would have increased/decreased net profit for the period/year of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

The Group

	At 30 June 2017 million	At 31 December 2016 million
US Dollars	40	33

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

58 FINANCIAL INSTRUMENTS *(Continued)*

Market risk *(Continued)*

(b) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term and long-term loans. Loans carrying interest at variable rates and at fixed interest rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rates and terms of repayment of short-term and long-term loans of the Group are disclosed in Note 21 and Note 29, respectively.

At 30 June 2017, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the period by approximately RMB 408 million (at 31 December 2016: decrease/increase RMB 327 million). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's loans outstanding at that date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2016.

(c) Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil, refined oil products and chemical products. The fluctuations in prices of crude oil, refined oil products and chemical products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of such risk.

At 30 June 2017, the Group had certain commodity contracts of crude oil, refined oil products and chemical products designated as qualified cash flow hedges and economic hedges. At 30 June 2017, the net fair value of such derivative hedging financial instruments is derivative financial assets of RMB 1,024 million (2016: RMB 312 million) recognised in other receivables and derivative financial liabilities of RMB 555 million (2016: RMB 4,336 million) recognised in other payables.

At 30 June 2017, it is estimated that a general increase/decrease of USD 10 per barrel in basic price of derivative financial instruments, with all other variables held constant, would impact the fair value of derivative financial instruments which would decrease/increase the Group's profit for the period by approximately RMB 520 million (2016: decrease/increase RMB 634 million), and decrease/increase the Group's other comprehensive income by approximately RMB 1,284 million (2016: decrease/increase RMB 4,007 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis is performed on the same basis for 2016.

Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy. With the fair value of each financial instrument categorised in its entirely based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 30 June 2017

The Group

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	238	—	—	238
Derivative financial instruments:				
– Derivative financial assets	234	896	—	1,130
	472	**896**	**—**	**1,368**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	164	396	—	560
	164	**396**	**—**	**560**

58 FINANCIAL INSTRUMENTS *(Continued)*

Fair values *(Continued)*

(i) Financial instruments carried at fair value *(Continued)*

At 31 December 2016

The Group

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	262	—	—	262
Derivative financial instruments:				
– Derivative financial assets	29	733	—	762
	291	**733**	**—**	**1,024**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	2,586	1,886	—	4,472
	2,586	**1,886**	**—**	**4,472**

During the period, there was no transfer between instruments in Level 1 and Level 2.

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

The fair values of the Group's financial instruments carried at other than fair value (other than long-term debts and unquoted security investments) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of long-term debts are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities ranging 1.75% to 4.90% (2016: 1.06% to 4.90%). The following table presents the carrying amount and fair value of the Group's long-term debts other than loans from Sinopec Group Company and fellow subsidiaries at 30 June 2017 and 31 December 2016:

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Carrying amount	95,840	110,969
Fair value	95,676	109,308

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

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

Except for the above items, the financial assets and liabilities of the Group are carried at amounts not materially different from their fair values at 30 June 2017 and 31 December 2016.

59 BASIC AND DILUTED EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by the net profit attributable to equity shareholders of the Company and the weighted average number of outstanding ordinary shares of the Company:

	Six-month periods ended 30 June	
	2017	2016
Net profit attributable to equity shareholders of the Company (RMB million)	27,092	19,250
Weighted average number of outstanding ordinary shares of the Company (million)	121,071	121,071
Basic earnings per share (RMB/share)	**0.224**	**0.159**

The calculation of the weighted average number of ordinary shares is as follows:

	Six-month periods ended 30 June	
	2017	2016
Weighted average number of outstanding ordinary shares of the Company at 1 January (million)	121,071	121,071
Weighted average number of outstanding ordinary shares of the Company at 30 June (million)	**121,071**	**121,071**

(ii) Diluted earnings per share

Diluted earnings per share is calculated by the net profit attributable to equity shareholders of the Company (diluted) and the weighted average number of ordinary shares of the Company (diluted):

	Six-month periods ended 30 June	
	2017	2016
Net profit attributable to equity shareholders of the Company (diluted) (RMB million)	27,090	19,248
Weighted average number of outstanding ordinary shares of the Company (diluted) (million)	121,071	121,071
Diluted earnings per share (RMB/share)	**0.224**	**0.159**

The calculation of the weighted average number of ordinary shares (diluted) is as follows:

	Six-month periods ended 30 June	
	2017	2016
The weighted average number of the ordinary shares issued at 30 June (million)	121,071	121,071
Weighted average number of the ordinary shares issued at 30 June (diluted) (million)	**121,071**	**121,071**

60 RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 revised) issued by the CSRC and relevant accounting standards, the Group's return on net assets and earnings per share are calculated as follows:

Six-month periods ended 30 June	**2017**			2016		
	Weighted average return on net assets (%)	**Basic earnings per share (RMB/Share)**	**Diluted earnings per share (RMB/Share)**	Weighted average return on net assets (%)	Basic earnings per share (RMB/Share)	Diluted earnings per share (RMB/Share)
Net profit attributable to the Company's ordinary equity shareholders	3.79	0.224	0.224	2.81	0.159	0.159
Net profit deducted extraordinary gains and losses attributable to the Company's ordinary equity shareholders	3.65	0.216	0.216	2.67	0.151	0.151

羅兵咸永道

Independent Auditor's Report
To the Shareholders of China Petroleum & Chemical Corporation
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Petroleum & Chemical Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 106 to 154, which comprise:

- the consolidated balance sheet as at 30 June 2017;
- the consolidated income statement for the six-month period then ended;
- the consolidated statement of comprehensive income for the six-month period then ended;
- the consolidated statement of changes in equity for the six-month period then ended;
- the consolidated statement of cash flows for the six-month period then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the six-month period then ended in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standard Board.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

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The key audit matter identified in our audit is "Recoverability of the carrying amount of oil and gas properties".

Key Audit Matter

Recoverability of the carrying amount of oil and gas properties

Refer to note 14 "PROPERTY, PLANT AND EQUIPMENT" to the consolidated financial statements.

As at 30 June 2017, the carrying amount of oil and gas properties amounted to RMB 192,287 million.

Low crude oil prices gave rise to possible indication that the carrying amount of oil and gas properties as at 30 June 2017 might be impaired. The Group has adopted values in use as the respective recoverable amounts of the oil and gas properties, which involved key estimations or assumptions including:

– Future crude oil prices;

– Future production profiles;

– Future cost profiles; and

– Discount rates.

Because of the significance of the carrying amount of oil and gas properties as at 30 June 2017, together with the use of significant estimations or assumptions in determining their respective values in use, we had placed our audit emphasis on this matter.

How our audit addressed the Key Audit Matter

In auditing the respective values in use calculations of the relevant oil and gas properties, we have performed the following key procedures on the relevant discounted cash flow projections prepared by management:

- Evaluated and tested the key controls, relating to the preparation of the discounted cash flow projections of oil and gas properties.
- Compared estimates of future crude oil prices adopted by the Group against a range of reputable published crude oil price forecasts.
- Compared the future production profiles against the oil and gas reserve estimation report approved by the management. Evaluated the competence, capability and objectivity of the management's experts engaged in estimating the oil and gas reserves. Assessed key estimations or assumptions used in the reserve estimation, by reference to historical data, management plans and/or reputable external data.
- Compared the future cost profiles against historical costs or relevant budgets of the Group.
- Independently estimated a range of discount rates, and found that the discount rates adopted by management were within the range.
- Tested selected other key data inputs, such as natural gas prices and production profiles in the projections by reference to historical data and/or relevant budgets of the Group.
- Assessed the methodology adopted in, and tested mathematical accuracy of, the discounted cash flow projections.
- Evaluated the sensitivity analyses prepared by the Group, and assessed the potential impacts of a range of possible outcomes.

Based on our work, we found the key assumptions and input data adopted were supported by the evidence we gathered and consistent with our expectations.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the 2017 interim report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is HON CHONG HENG.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 August 2017

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 30 June 2017
(Amounts in million, except per share data)

	Note	Six-month periods ended 30 June **2017** **RMB**	2016 RMB
Turnover and other operating revenues			
Turnover	3	1,137,828	856,796
Other operating revenues	4	28,009	22,424
		1,165,837	**879,220**
Operating expenses			
Purchased crude oil, products and operating supplies and expenses		(887,028)	(615,419)
Selling, general and administrative expenses	5	(30,131)	(33,056)
Depreciation, depletion and amortisation		(55,217)	(49,105)
Exploration expenses, including dry holes		(4,542)	(4,730)
Personnel expenses	6	(31,328)	(29,063)
Taxes other than income tax	7	(116,297)	(112,831)
Other operating (expense)/income, net	8	(1,985)	92
Total operating expenses		**(1,126,528)**	**(844,112)**
Operating profit		**39,309**	**35,108**
Finance costs			
Interest expense	9	(3,979)	(5,164)
Interest income		2,457	1,358
Foreign currency exchange gains/(losses), net		233	(478)
Net finance costs		**(1,289)**	**(4,284)**
Investment income		286	99
Share of profits less losses from associates and joint ventures	17, 18	7,651	4,598
Profit before taxation		**45,957**	**35,521**
Tax expense	10	(8,915)	(8,379)
Profit for the period		**37,042**	**27,142**
Attributable to:			
Shareholders of the Company		27,915	19,919
Non-controlling interests		9,127	7,223
Profit for the period		**37,042**	**27,142**
Earnings per share:	13		
Basic		**0.231**	**0.165**
Diluted		**0.231**	**0.165**

The notes on pages 113 to 154 form part of these consolidated interim financial statements. Details of dividends payable to shareholders of the Company attributable to the profit for the period are set out in Note 11.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six-month period ended 30 June 2017

(Amounts in million)

	Note	Six-month periods ended 30 June 2017 RMB	2016 RMB
Profit for the period		**37,042**	**27,142**
Other comprehensive income:	12		
Items that may be reclassified subsequently to profit or loss (net of tax and after reclassification adjustments):			
Cash flow hedges		162	1,767
Available-for-sale securities		(7)	(33)
Share of other comprehensive income of associates and joint ventures		277	99
Foreign currency translation differences		(1,542)	987
Total items that may be reclassified subsequently to profit or loss		**(1,110)**	**2,820**
Total other comprehensive income		**(1,110)**	**2,820**
Total comprehensive income for the period		**35,932**	**29,962**
Attributable to:			
Shareholders of the Company		27,273	24,902
Non-controlling interests		8,659	5,060
Total comprehensive income for the period		**35,932**	**29,962**

The notes on pages 113 to 154 form part of these consolidated interim financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2017

(Amounts in million)

	Note	30 June 2017 RMB	31 December 2016 RMB
Non-current assets			
Property, plant and equipment, net	14	652,294	690,594
Construction in progress	15	119,548	129,581
Goodwill	16	6,325	6,353
Interest in associates	17	68,102	66,116
Interest in joint ventures	18	54,194	50,696
Available-for-sale financial assets	19	11,325	11,408
Deferred tax assets	25	9,761	7,214
Lease prepayments	20	53,981	54,241
Long-term prepayments and other assets	21	77,849	70,145
Total non-current assets		**1,053,379**	**1,086,348**
Current assets			
Cash and cash equivalents		129,127	124,468
Time deposits with financial institutions		31,695	18,029
Trade accounts receivable	22	50,560	50,289
Bills receivable	22	9,819	13,197
Inventories	23	167,058	156,511
Prepaid expenses and other current assets	24	45,900	49,767
Total current assets		**434,159**	**412,261**
Current liabilities			
Short-term debts	26	43,906	56,239
Loans from Sinopec Group Company and fellow subsidiaries	26	22,969	18,580
Trade accounts payable	27	170,116	174,301
Bills payable	27	6,162	5,828
Accrued expenses and other payables	28	214,064	224,544
Income tax payable		5,192	6,051
Total current liabilities		**462,409**	**485,543**
Net current liabilities		**28,250**	**73,282**
Total assets less current liabilities		**1,025,129**	**1,013,066**
Non-current liabilities			
Long-term debts	26	70,997	72,674
Loans from Sinopec Group Company and fellow subsidiaries	26	44,832	44,772
Deferred tax liabilities	25	6,146	7,661
Provisions	29	40,207	39,298
Other long-term liabilities		18,356	17,426
Total non-current liabilities		**180,538**	**181,831**
		844,591	**831,235**
Equity			
Share capital	30	121,071	121,071
Reserves		596,618	589,923
Total equity attributable to shareholders of the Company		**717,689**	**710,994**
Non-controlling interests		**126,902**	**120,241**
Total equity		**844,591**	**831,235**

Approved and authorised for issue by the board of directors on 25 August 2017.

Wang Yupu
Chairman
(Legal representative)

Dai Houliang
Vice Chairman, President

Wang Dehua
Chief Financial Officer

The notes on pages 113 to 154 form part of these consolidated interim financial statements.

(Amounts in million)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to shareholders of the Company RMB	Non-controlling interests RMB	Total equity RMB
Balance at 31 December 2015	121,071	26,173	55,850	79,640	117,000	(6,781)	281,076	674,029	110,190	784,219
Contribution from SAMC in the Acquisition of Gaoqiao Branch of SAMC (Note 1)	—	2,168	—	—	—	—	—	2,168	1,774	3,942
Balance at 1 January 2016	121,071	28,341	55,850	79,640	117,000	(6,781)	281,076	676,197	111,964	788,161
Profit for the period	—	—	—	—	—	—	19,919	19,919	7,223	27,142
Other comprehensive income (Note 12)	—	—	—	—	—	4,983	—	4,983	(2,163)	2,820
Total comprehensive income for the period	—	—	—	—	—	4,983	19,919	24,902	5,060	29,962
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners:										
Final dividend for 2015 (Note 11)	—	—	—	—	—	—	(7,264)	(7,264)	—	(7,264)
Contributions to subsidiaries from non-controlling interests	—	1	—	—	—	—	—	1	74	75
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(2,194)	(2,194)
Profit distribution to SAMC (Note 1)	—	—	—	—	—	—	(47)	(47)	(39)	(86)
Distribution to SAMC in the Acquisition of Gaoqiao Branch of SAMC (Note 1)	—	(2,137)	—	—	—	—	—	(2,137)	2,137	—
Total contributions by and distributions to owners	—	(2,136)	—	—	—	—	(7,311)	(9,447)	(22)	(9,469)
Total transactions with owners	—	(2,136)	—	—	—	—	(7,311)	(9,447)	(22)	(9,469)
Others	—	(10)	—	—	—	620	(620)	(10)	(10)	(20)
Balance at 30 June 2016	**121,071**	**26,195**	**55,850**	**79,640**	**117,000**	**(1,178)**	**293,064**	**691,642**	**116,992**	**808,634**

The notes on pages 113 to 154 form part of these consolidated interim financial statements.

(Amounts in million)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Statutory surplus reserve RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Total equity attributable to shareholders of the Company RMB	Non-controlling interests RMB	Total equity RMB
Balance at 1 January 2017	121,071	26,290	55,850	79,640	117,000	424	310,719	710,994	120,241	831,235
Profit for the period	—	—	—	—	—	—	27,915	27,915	9,127	37,042
Other comprehensive income (Note 12)	—	—	—	—	—	(642)	—	(642)	(468)	(1,110)
Total comprehensive income for the period	—	—	—	—	—	(642)	27,915	27,273	8,659	35,932
Transactions with owners, recorded directly in equity:										
Contributions by and distributions to owners:										
Final dividend for 2016 (Note 11)	—	—	—	—	—	—	(20,582)	(20,582)	—	(20,582)
Contributions to subsidiaries from non-controlling interests	—	—	—	—	—	—	—	—	341	341
Distributions to non-controlling interests	—	—	—	—	—	—	—	—	(2,341)	(2,341)
Total contributions by and distributions to owners	—	—	—	—	—	—	(20,582)	(20,582)	(2,000)	(22,582)
Total transactions with owners	—	—	—	—	—	—	(20,582)	(20,582)	(2,000)	(22,582)
Others	—	4	—	—	—	774	(774)	4	2	6
Balance at 30 June 2017	**121,071**	**26,294**	**55,850**	**79,640**	**117,000**	**556**	**317,278**	**717,689**	**126,902**	**844,591**

Note:

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

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

(c) As at 30 June 2017, the amount of retained earnings available for distribution was RMB 168,031 million (2016: RMB 174,573 million), being the amount determined in accordance with ASBE. According to the Articles of Association of the Company, the amount of retained earnings available for distribution to shareholders of the Company is lower of the amount determined in accordance with the accounting policies complying with ASBE and the amount determined in accordance with the accounting policies complying with International Financial Reporting Standards ("IFRS").

(d) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation (Note 1); and (ii) the difference between the considerations paid over or received the amount of the net assets of entities and related operations acquired from or sold to Sinopec Group Company and non-controlling interests.

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

The notes on pages 113 to 154 form part of these consolidated interim financial statements.

(Amounts in million)

	Note	Six-month periods ended 30 June 2017 RMB	2016 RMB
Net cash generated from operating activities	(a)	**60,847**	**76,112**
Investing activities			
Capital expenditure		(26,351)	(30,086)
Exploratory wells expenditure		(2,391)	(1,267)
Purchase of investments, investments in associates and investments in joint ventures	17, 18	(3,270)	(14,393)
Proceeds from disposal of investments and investments in associates		718	19,938
Proceeds from disposal of property, plant, equipment and other non-current assets		216	306
Increase in time deposits with maturities over three months		(32,474)	(3,003)
Decrease in time deposits with maturities over three months		18,808	—
Interest received		1,347	987
Investment and dividend income received		3,395	1,459
Net cash used in investing activities		**(40,002)**	**(26,059)**
Financing activities			
Proceeds from bank and other loans		269,008	262,851
Repayments of bank and other loans		(279,559)	(293,977)
Contributions to subsidiaries from non-controlling interests		331	192
Dividends paid by the Company		—	(7,264)
Distributions by subsidiaries to non-controlling interests		(2,608)	(3,469)
Interest paid		(3,210)	(4,263)
Net cash used in financing activities		**(16,038)**	**(45,930)**
Net increase in cash and cash equivalents		**4,807**	**4,123**
Cash and cash equivalents at 1 January		**124,468**	**68,933**
Effect of foreign currency exchange rate changes		**(148)**	**194**
Cash and cash equivalents at 30 June		**129,127**	**73,250**

The notes on pages 113 to 154 form part of these consolidated interim financial statements.

(Amounts in million)

(a) Reconciliation From Profit Before Taxation To Net Cash Generated Fom Operating Activities

	Six-month periods ended 30 June	
	2017	2016
	RMB	RMB
Operating activities		
Profit before taxation	45,957	35,521
Adjustments for:		
Depreciation, depletion and amortisation	55,217	49,105
Dry hole costs written off	3,937	3,619
Share of profits from associates and joint ventures	(7,651)	(4,598)
Investment income	(286)	(99)
Interest income	(2,457)	(1,358)
Interest expense	3,979	5,164
(Gain)/loss on foreign currency exchange rate changes and derivative financial instruments	(495)	647
Loss/(gain) on disposal of property, plant, equipment and other non-currents assets, net	98	(7)
Impairment losses on assets	4,076	1,423
	102,375	**89,417**
Net charges from:		
Accounts receivable and other current assets	2,213	(9,959)
Inventories	(10,750)	(4,091)
Accounts payable and other current liabilities	(19,389)	12,167
	74,449	**87,534**
Income tax paid	(13,602)	(11,422)
Net cash generated from operating activities	**60,847**	**76,112**

The notes on pages 113 to 154 form part of these consolidated interim financial statements.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

Principal activities

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

Organisation

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

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

Basis of preparation

Pursuant to the resolution passed at the Directors' meeting on 29 October 2015, the Company entered into the JV Agreement with Sinopec Assets Management Corporation ("SAMC") in relation to the formation of the Gaoqiao Petrochemical Co., Ltd. According to the JV Agreement, the Company and SAMC jointly set up Gaoqiao Petrochemical Co., Ltd. for RMB 100 million in cash in 2016. Subsequently, the Company subscribed capital contribution with the net assets of Gaoqiao Branch of the Company and SAMC subscribed capital contribution with the net assets of Gaoqiao Branch of SAMC. The capital contribution was completed on 1 June 2016, after which the Company held 55% of Gaoqiao Petrochemical Co., Ltd.'s voting rights and became the parent company of Gaoqiao Petrochemical Co., Ltd.

As Sinopec Group Company controls both the Group and SAMC, the non–cash transaction described above between Sinopec and SAMC has been accounted as business combination under the common control and it has been reflected in the accompanying consolidated financial statements as combination of entities under common control in a manner of predecessor value accounting. Accordingly, the assets and liabilities of Gaoqiao Branch of SAMC have been accounted for at historical cost, and the consolidated financial statements of the Group prior to these acquisitions have been restated to include the results of operation and the assets and liabilities of Gaoqiao Branch of SAMC on a combined basis.

At the completion date, the non–controlling interests amount to RMB 2,137 million was recognized in relation to SAMC's 45% interest in Gaoqiao Branch of the Company.

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

(a) New and amended standards and interpretations adopted by the Group

The following relevant IFRSs, amendments to exisiting IFRSs and interpretation of IFRS have been published and are mandatory for the year beginning on or after 1 January 2017 and have been adopted by the Group in current accounting period:

Amendments to IAS 7, 'Statement of cash flows', the IASB has issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. Amendments to IAS 7 are effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 12, 'Income taxes', the IASB has issued amendments to IAS 12, 'Income taxes'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. Amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2017.

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

The Group has not early adopted any new standard or interpretation that is not yet effective for the current accounting period.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION *(Continued)*

Basis of preparation *(Continued)*

(b) New and amended standards and interpretations not yet adopted by the Group

The following relevant IFRSs, amendments to existing IFRSs and interpretation of IFRS have been published and are mandatory for accounting periods beginning on or after 1 January 2018 or later periods and have not been early adopted by the Group. Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application and has so far concluded that, except for IFRS 16, the adoption of these amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the whole of IAS 39. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 replaces the previous revenue standards: IAS 18 'Revenue' and IAS 11 'Construction Contracts' and the related Interpretations on revenue recognition: IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfers of Assets from Customers' and SIC-31 'Revenue—Barter Transactions Involving Advertising Services'. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

IFRS 16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a 'right-of-use-asset' for almost all lease contracts, with an exemption for certain short-term leases and leases of low-value assets. The lessors accounting stays almost the same as under IAS 17 'Leases'. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 is also applied.

Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture. The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

(i) Subsidiaries and non-controlling interests

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

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

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

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

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

The particulars of the Group's principal subsidiaries are set out in Note 35.

(ii) Associates and joint ventures

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

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

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

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

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

(iii) Transactions eliminated on consolidation

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

(iv) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised as consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination. The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation. Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the period in which it is incurred.

(b) Translation of foreign currencies

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

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

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

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

(c) Cash and cash equivalents

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

(d) Trade, bills and other receivables

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

(e) Inventories

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

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

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

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

	Estimated usage period	Estimated residuals rate
Buildings	12 to 50 years	3%
Equipment, machinery and others	4 to 30 years	3%

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

(g) Oil and gas properties

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

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

(h) Lease prepayments

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

(i) Construction in progress

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

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

No depreciation is provided in respect of construction in progress.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Goodwill

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

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

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

(k) Available-for-sale financial assets

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

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

(l) Derivative financial instruments

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

(m) Offsetting financial instruments

Financial assets and liabilities are presented respectively in the consolidated balance sheet, without any offset. However, they are offset and reported in the balance sheet when satisfied the following: (i) There is a legally enforceable right to offset the recognised amounts. (ii) There is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(n) Hedging

(i) Cash flow hedges

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

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the asset acquired or liability assumed affects the consolidated income statement (such as when interest income or expense is recognised).

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Hedging *(Continued)*

(ii) Fair value hedges

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

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

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

(iii) Hedge of net investments in foreign operations

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

(o) Impairment of assets

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Trade, bills and other payables

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

(q) Interest-bearing borrowings

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

(r) Provisions and contingent liability

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

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

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

(s) Revenue recognition

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

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

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

(t) Borrowing costs

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

(u) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(v) Environmental expenditures

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

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

(w) Research and development expense

Research and development expenditures that cannot be capitalised are expensed in the period in which they are incurred. Research and development expense amounted to RMB 2,672 million for the six-month period ended 30 June 2017 (2016: RMB 3,112 million).

(x) Operating leases

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Employee benefits

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

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

(z) Income tax

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

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

(aa) Dividends

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

(bb) Segment reporting

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

3 TURNOVER

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

4 OTHER OPERATING REVENUES

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Sale of materials, service and others	27,670	21,979
Rental income	339	445
	28,009	**22,424**

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Operating lease charges	6,292	7,469
Impairment losses:		
– trade accounts receivable	(82)	(1)
– other receivables	(14)	(91)
– accounts prepayments	7	2

6 PERSONNEL EXPENSES

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Salaries, wages and other benefits	26,915	24,950
Contributions to retirement schemes (Note 33)	4,413	4,113
	31,328	**29,063**

7 TAXES OTHER THAN INCOME TAX

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Consumption tax (i)	95,398	95,030
City construction tax (ii)	9,022	8,899
Education surcharge	6,876	6,729
Resources tax	2,396	1,776
Other	2,605	397
	116,297	**112,831**

Note:

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

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

(ii) City construction tax is levied on an entity based on its total paid amount of value-added tax, consumption tax and business tax. Pursuant to the 'Circular on the Overall Promotion of Pilot Program of Levying VAT in place of Business Tax' (Cai Shui [2016] 36) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from modern service of the subsidiaries of the Group, are subject to VAT from 1 May 2016, and the applicable tax rate is 6%, while the business tax was from 3% to 5% before then.

8 OTHER OPERATING (EXPENSE)/INCOME, NET

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Government grant (i)	1,441	1,026
Ineffective portion of change in fair value of cash flow hedges	142	585
Net realised and unrealised gain on derivative financial instruments not qualified as hedging	403	250
Impairment losses on long-lived assets (ii)	(3,962)	(1,257)
(Loss)/gain on disposal of property, plant, equipment and other non-currents assets, net	(98)	7
Fines, penalties and compensations	(21)	(36)
Donations	(13)	(48)
Others	123	(435)
	(1,985)	**92**

Note:

(i) Government grants for the six-month periods ended 30 June 2017 and 2016 primarily represent financial appropriation income and non–income tax refunds received from respective government agencies without conditions or other contingencies attached to the receipts of the grants.

(ii) Impairment losses on long-lived assets for the periods ended 30 June 2017 primarily represent impairment losses recognised in the exploration and production (E&P) segment of RMB 3,487 million (2016: nil), the chemicals segment of RMB 309 million (2016: RMB 118 million) and for the refining segment of RMB 166 million (2016: RMB 1,108 million) (Note 34), most of which are impairment losses on property, plant and equipment (Note 14). The primary factors resulting in the E&P segment impairment loss were high operating cost for certain oil fields. The carrying values of these E&P properties were written down to recoverable amounts which were determined based on the present values of the expected future cash flows of the assets using a pre-tax discount rate 10.47% (2016: 10.80%). Further future downward revisions to the Group's oil price outlook by 5% or more would lead to further impairments which, in aggregate, are likely to be material. It is estimated that a general decrease of 5% in oil price, with all other variables held constant, would result in additional impairment loss in E&P segment by approximately RMB 2,401 million. It is estimated that a general increase of 5% in operating cost, with all other variables held constant, would result in additional impairment loss in E&P segment by approximately RMB 1,879 million. It is estimated that a general increase of 5% in discount rate, with all other variables held constant, would result in additional impairment loss in E&P segment by approximately RMB 809 million. The assets in the chemicals and refining segment were written down mainly due to the suspension of operations of certain production facilities.

9 INTEREST EXPENSE

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Interest expense incurred	3,602	5,078
Less: Interest expense capitalised*	(282)	(409)
	3,320	**4,669**
Accretion expenses (Note 29)	659	495
Interest expense	**3,979**	**5,164**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**3.92% to 4.41%**	**3.30% to 5.60%**

10 TAX EXPENSE

Tax expense in the consolidated income statement represents:

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Current tax		
– Provision for the period	12,258	8,031
– Adjustment of prior years	645	29
Deferred taxation (Note 25)	(3,988)	319
	8,915	**8,379**

10 TAX EXPENSE *(Continued)*

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Profit before taxation	**45,957**	**35,521**
Expected PRC income tax expense at a statutory tax rate of 25%	11,489	8,880
Tax effect of non-deductible expenses	140	161
Tax effect of non-taxable income	(2,046)	(1,184)
Tax effect of preferential tax rate (i)	(422)	215
Effect of difference between income taxes at foreign operations tax rate and the PRC statutory tax rate (ii)	(716)	(556)
Tax effect of utilisation of previously unrecognised tax losses and temporary differences	(593)	(345)
Tax effect of tax losses not recognised	409	500
Write-down of deferred tax assets	9	43
Adjustment of prior years	645	665
Actual income tax expense	**8,915**	**8,379**

Note:

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

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

11 DIVIDENDS

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Interim dividends declared after the balance sheet date of RMB 0.10 per share (2016: RMB 0.079 per share)	**12,107**	**9,565**

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 25 August 2017, the directors authorised to declare the interim dividends for the year ending 31 December 2017 of RMB 0.10 (2016: RMB 0.079) per share totaling RMB 12,107 million (2016: RMB 9,565 million). Dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Final cash dividends in respect of the previous financial year, approved during the period of RMB 0.17 per share (2016: RMB 0.06 per share)	**20,582**	**7,264**

Pursuant to the shareholders' approval at the Annual General Meeting on 28 June 2017, a final dividend of RMB 0.17 per share totaling RMB 20,582 million according to total shares of 18 July 2017 was approved. All dividends have been paid in July 2017.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2016, a final dividend of RMB 0.06 per share totaling RMB 7,264 million according to total shares of 23 June 2016 was approved. All dividends have been paid in the six-month period ended 30 June 2016.

12 OTHER COMPREHENSIVE INCOME

	Six-month period ended 30 June 2017			Six-month period ended 30 June 2016		
	Before tax amount RMB million	**Tax effect RMB million**	**Net of tax amount RMB million**	Before tax amount RMB million	Tax effect RMB million	Net of tax amount RMB million
Cash flow hedges:						
Effective portion of changes in fair value of hedging instruments recognised during the period	3,406	(604)	2,802	(513)	34	(479)
Amounts transferred to initial carrying amount of hedged items	89	(15)	74	(165)	27	(138)
Reclassification adjustments for amounts transferred to the consolidated income statement	(3,281)	567	(2,714)	2,827	(443)	2,384
Net movement during the period recognised in other comprehensive income	**214**	**(52)**	**162**	**2,149**	**(382)**	**1,767**
Available-for-sale securities:						
Changes in fair value recongnised during the period	(7)	—	(7)	(33)	—	(33)
Net movement during the period recognised in other comprehensive income	**(7)**	**—**	**(7)**	**(33)**	**—**	**(33)**
Share of other comprehensive income of associates and joint ventures	277	—	277	99	—	99
Foreign currency translation differences	(1,542)	—	(1,542)	987	—	987
Other comprehensive income	**(1,058)**	**(52)**	**(1,110)**	**3,202**	**(382)**	**2,820**

13 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2017 is based on the profit attributable to ordinary shareholders of the Company of RMB 27,915 million (2016: RMB 19,919 million) and the weighted average number of shares of 121,071,209,646 (2016: 121,071,209,646) during the period.

The calculation of diluted earnings per share for the six-month period ended 30 June 2017 is based on the profit attributable to ordinary shareholders of the Company (diluted) of RMB 27,913 million (2016: RMB 19,917 million) and the weighted average number of shares of 121,071,209,646 (2016: 121,071,209,646) calculated as follows:

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

	Six-month periods ended 30 June	
	2017 RMB million	2016 RMB million
Profit attributable to ordinary shareholders of the Company	27,915	19,919
After tax effect of employee share option scheme of Shanghai Petrochemical	(2)	(2)
Profit attributable to ordinary shareholders of the Company (diluted)	**27,913**	**19,917**

(ii) Weighted average number of shares (diluted)

	Six-month periods ended 30 June	
	2017 Number of shares	2016 Number of shares
Weighted average number of shares at 30 June	121,071,209,646	121,071,209,646
Weighted average number of shares (diluted) at 30 June	**121,071,209,646**	**121,071,209,646**

14 PROPERTY, PLANT AND EQUIPMENT

	Plants and buildings RMB million	Oil and gas properties RMB million	Equipment, machinery and others RMB million	Total RMB million
Cost:				
Balance at 1 January 2016	107,873	613,134	880,711	1,601,718
Additions	16	1,700	538	2,254
Transferred from construction in progress	1,391	16,341	17,262	34,994
Reclassifications	415	(64)	(351)	—
Exchange adjustments	39	862	57	958
Reclassification to lease prepayments and other long-term assets	(7)	—	(765)	(772)
Disposals	(112)	—	(1,553)	(1,665)
Balance at 30 June 2016	**109,615**	**631,973**	**895,899**	**1,637,487**
Balance at 1 January 2017	114,920	650,685	892,936	1,658,541
Additions	279	493	2,434	3,206
Transferred from construction in progress	1,088	6,857	12,241	20,186
Reclassifications	667	(159)	(508)	—
Exchange adjustments	(57)	(1,037)	(87)	(1,181)
Reclassification to lease prepayments and other long-term assets	(635)	—	(7,195)	(7,830)
Disposals	(108)	(116)	(1,993)	(2,217)
Balance at 30 June 2017	**116,154**	**656,723**	**897,828**	**1,670,705**
Accumulated depreciation:				
Balance at 1 January 2016	44,469	374,191	449,609	868,269
Depreciation for the period	1,867	20,279	23,225	45,371
Impairment losses for the period	80	—	1,176	1,256
Reclassifications	27	(26)	(1)	—
Exchange adjustments	14	578	26	618
Reclassification to lease prepayments and other long-term assets	(1)	—	(88)	(89)
Written back on disposals	(85)	—	(1,318)	(1,403)
Balance at 30 June 2016	**46,371**	**395,022**	**472,629**	**914,022**
Balance at 1 January 2017	48,572	435,561	483,814	967,947
Depreciation for the period	1,984	26,422	22,965	51,371
Impairment losses for the period	47	3,487	427	3,961
Reclassifications	133	(124)	(9)	—
Exchange adjustments	(24)	(806)	(42)	(872)
Reclassification to lease prepayments and other long-term assets	(162)	—	(2,060)	(2,222)
Written back on disposals	(59)	(104)	(1,611)	(1,774)
Balance at 30 June 2017	**50,491**	**464,436**	**503,484**	**1,018,411**
Net book value:				
Balance at 1 January 2016	63,404	238,943	431,102	733,449
Balance at 30 June 2016	**63,244**	**236,951**	**423,270**	**723,465**
Balance at 1 January 2017	66,348	215,124	409,122	690,594
Balance at 30 June 2017	**65,663**	**192,287**	**394,344**	**652,294**

The additions to oil and gas properties of the Group for the six–month period ended 30 June 2017 included RMB 493 million (2016: RMB 1,700 million) of estimated dismantlement costs for site restoration (Note 29).

15 CONSTRUCTION IN PROGRESS

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Balance at 1 January	129,581	152,325
Additions	16,373	15,500
Dry hole costs written off	(3,937)	(3,619)
Transferred to property, plant and equipment	(20,186)	(34,994)
Reclassification to lease prepayments and other long-term assets	(2,261)	(2,390)
Impairment losses for the period	—	(1)
Disposal	(3)	(66)
Exchange adjustments	(19)	35
Balance at 30 June	**119,548**	**126,790**

As at 30 June 2017, the amount of capitalised cost of exploratory wells included in construction in progress related to the exploration and production segment was RMB 9,683 million (2016: RMB 12,629 million). The geological and geophysical costs paid during the six-month period ended 30 June 2017 were RMB 1,046 million (2016: RMB 1,047 million).

16 GOODWILL

	30 June 2017 RMB million	31 December 2016 RMB million
Cost	13,988	14,016
Less: Accumulated impairment losses	(7,663)	(7,663)
	6,325	**6,353**

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

	Principal activities	**30 June 2017 RMB million**	31 December 2016 RMB million
Sinopec Beijing Yanshan Petrochemical Branch ("Sinopec Yanshan")	Manufacturing of intermediate petrochemical products and petroleum products	1,157	1,157
Sinopec Zhenhai Refining and Chemical Branch ("Sinopec Zhenhai")	Manufacturing of intermediate petrochemical products and petroleum products	4,043	4,043
Sinopec (Hong Kong) Limited	Trading of petrochemical products	913	941
Other units without individually significant goodwill		212	212
		6,325	**6,353**

Goodwill represents the excess of the cost of purchase over the fair value of the underlying assets and liabilities. The recoverable amounts of the above cash generating units are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 10.7% to 11.3% (2016: 10.4% to 11.0%). Cash flows beyond the one-year period are maintained constant. Based on the estimated recoverable amount, no impairment loss was recognised.

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

17 INTEREST IN ASSOCIATES

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

The Group's principal associates are as follows:

Name of company	% of ownership interests	Principal activities	Measurement method	Country of incorporation	Principal place of business
Sinopec Sichuan To East China Gas Pipeline Co., Ltd. ("Pipeline Ltd")	50.00	Operation of natural gas pipelines and auxiliary facilities	Equity method	PRC	PRC
Sinopec Finance Company Limited ("Sinopec Finance")	49.00	Provision of non-banking financial services	Equity method	PRC	PRC
Zhongtian Synergetic Energy Company Limited ("Zhongtian Synergetic Energy")	38.75	Manufacturing of coal-chemical products	Equity method	PRC	PRC
China Aviation Oil Supply Company Limited ("China Aviation Oil")	29.00	Marketing and distribution of refined petroleum products	Equity method	PRC	PRC
Caspian Investments Resources Ltd. ("CIR")	50.00	Crude oil and natural gas extraction	Equity method	British Virgin Islands	The Republic of Kazakhstan

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

	Pipeline Ltd		Sinopec Finance		Zhongtian Synergetic Energy		China Aviation Oil		CIR	
	30 June 2017 RMB million	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million
Current assets	13,252	11,835	150,790	149,457	8,686	7,292	16,698	13,115	5,477	5,120
Non-current assets	24,656	25,395	15,274	16,478	50,828	50,301	5,653	5,671	3,099	3,842
Current liabilities	(4,367)	(5,009)	(141,825)	(142,386)	(7,220)	(8,078)	(7,496)	(6,297)	(949)	(928)
Non-current liabilities	(4)	(4)	(80)	(88)	(34,906)	(32,137)	(400)	(417)	(835)	(883)
Net assets	**33,537**	**32,217**	**24,159**	**23,461**	**17,388**	**17,378**	**14,455**	**12,072**	**6,792**	**7,151**
Net assets attributable to owners of the Company	33,537	32,217	24,159	23,461	17,388	17,378	12,694	10,743	6,792	7,151
Net assets attributable to non-controlling interests	—	—	—	—	—	—	1,761	1,329	—	—
Share of net assets from associates	16,769	16,109	11,838	11,496	6,738	6,734	3,681	3,115	3,396	3,576
Other (i)	6,691	6,691	—	—	—	—	—	—	—	—
Carrying Amounts	**23,460**	**22,800**	**11,838**	**11,496**	**6,738**	**6,734**	**3,681**	**3,115**	**3,396**	**3,576**

Summarised statement of comprehensive income

Six-month periods ended 30 June	Pipeline Ltd (ii)	Sinopec Finance		Zhongtian Synergetic Energy (iii)		China Aviation Oil		CIR	
	2017 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	3,037	1,641	1,217	—	—	49,099	32,021	1,289	931
Profit/(loss) for the periods	1,284	720	720	—	—	2,475	1,973	(197)	(905)
Other comprehensive (loss)/income	—	(22)	(31)	—	—	—	—	(162)	199
Total comprehensive income/(loss)	**1,284**	**698**	**689**	**—**	**—**	**2,475**	**1,973**	**(359)**	**(706)**
Dividends declared by associates	—	—	—	—	—	—	—	—	—
Share of profit/(loss) from associates	642	353	353	—	—	613	496	(99)	(453)
Share of other comprehensive (loss)/income from associates	—	(11)	(15)	—	—	—	—	(81)	100

The share of profit and other comprehensive income for the six-month period ended 30 June 2017 in all individually immaterial associates accounted for using equity method in aggregate was RMB 1,109 million (2016: RMB 660 million) and 81 million (2016: other comprehensive loss RMB 103 million) respectively. As at 30 June 2017, the carrying amount of all individually immaterial associates accounted for using equity method in aggregate was RMB 18,989 million (31 December 2016: RMB 18,395 million).

Note:

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

(ii) On 12 December 2016, the Group entered into the Capital Injection Agreement in relation to Sinopec Sichuan To East China Gas Pipeline Co., Ltd. ("Pipeline Ltd."), a wholly-owned subsidiary of the Group, with China Life Insurance Company Limited ("China Life") and SDIC Communications Holding Co., Ltd. ("SDIC Holding") (the "Capital Injection Agreement"). Thereafter, the Group's equity interest in Pipeline Ltd was diluted from 100% to 50%. Consequently, the Group has deconsolidated Pipeline Ltd and started accounting for its 50% equity interest in Pipeline Ltd as an investment in associate company. Management is in the process of allocating the fair value to identifiable assets and liabilities of Pipeline Ltd. The accompanying summarised financial information of Pipeline Ltd is based on management's preliminary fair value allocation which may be subject to further update.

(iii) The main asset of Zhongtian Synergetic Energy was under construction during the period ended 30 June 2017.

18 INTEREST IN JOINT VENTURES

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

Name of entity	% of ownership interests	Principal activities	Measurement method	Country of incorporation	Principal place of business
Fujian Refining & Petrochemical Company Limited ("FREP")	50.00	Manufacturing refining oil products	Equity method	PRC	PRC
BASF–YPC Company Limited ("BASF–YPC")	40.00	Manufacturing and distribution of petrochemical products	Equity method	PRC	PRC
Mansarovar Energy Colombia Ltd. ("Mansarovar")	50.00	Crude oil and natural gas extraction	Equity method	British Bermuda	Colombia
Taihu Limited ("Taihu")	49.00	Crude oil and natural gas extraction	Equity method	Cyprus	Russia
Yanbu Aramco Sinopec Refining Company Ltd. ("YASREF")	37.50	Petroleum refining and processing business	Equity method	Saudi Arabia	Saudi Arabia

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

	FREP		BASF-YPC		Mansarovar		Taihu		YASREF	
	30 June 2017 RMB million	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million
Current assets										
Cash and cash equivalents	11,220	8,172	2,362	1,394	373	499	1,267	1,165	2,560	1,259
Other current assets	8,254	10,269	5,019	4,852	522	569	1,572	1,616	9,115	6,826
Total current assets	**19,474**	**18,441**	**7,381**	**6,246**	**895**	**1,068**	**2,839**	**2,781**	**11,675**	**8,085**
Non-current assets	**20,773**	**21,903**	**12,611**	**13,530**	**4,065**	**4,050**	**7,430**	**8,279**	**54,773**	**57,054**
Current liabilities										
Current financial liabilities (i)	(1,686)	(1,781)	(371)	(783)	—	—	(47)	(334)	(1,133)	(1,187)
Other current liabilities	(3,229)	(4,643)	(2,220)	(2,107)	(351)	(599)	(1,524)	(1,616)	(9,656)	(6,466)
Total current liabilities	**(4,915)**	**(6,424)**	**(2,591)**	**(2,890)**	**(351)**	**(599)**	**(1,571)**	**(1,950)**	**(10,789)**	**(7,653)**
Non-current liabilities										
Non-current financial liabilities(ii)	(18,521)	(19,985)	(1,174)	(1,492)	—	—	(54)	(49)	(41,361)	(43,028)
Other non-current liabilities	(237)	(252)	(10)	(10)	(1,485)	(895)	(1,125)	(2,130)	(952)	(1,004)
Total non-current liabilities	**(18,758)**	**(20,237)**	**(1,184)**	**(1,502)**	**(1,485)**	**(895)**	**(1,179)**	**(2,179)**	**(42,313)**	**(44,032)**
Net assets	**16,574**	**13,683**	**16,217**	**15,384**	**3,124**	**3,624**	**7,519**	**6,931**	**13,346**	**13,454**
Net assets attributable to owners of the Company	16,574	13,683	16,217	15,384	3,124	3,624	7,258	6,690	13,346	13,454
Net assets attributable to non–controlling interests	—	—	—	—	—	—	261	241	—	—
Share of net assets from joint ventures	8,287	6,842	6,487	6,154	1,562	1,812	3,556	3,278	5,005	5,045
Other (iii)	—	—	—	—	—	—	637	743	—	—
Carrying Amounts	**8,287**	**6,842**	**6,487**	**6,154**	**1,562**	**1,812**	**4,193**	**4,021**	**5,005**	**5,045**

18 INTEREST IN JOINT VENTURES *(Continued)*

Summarised statement of comprehensive income

Six-month periods ended 30 June	FREP		BASF-YPC		Mansarovar		Taihu		YASREF	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	24,412	20,176	10,440	7,860	852	496	5,933	4,418	28,509	20,476
Depreciation, depletion and amortisation	(1,208)	(1,214)	(1,042)	(1,138)	(586)	(603)	(670)	(698)	(1,322)	(1,354)
Interest income	100	50	14	9	—	2	65	—	9	10
Interest expense	(450)	(473)	(41)	(99)	—	(3)	(66)	(21)	(703)	(582)
Profit/(loss) before taxation	3,825	3,707	2,218	951	(442)	(804)	787	731	149	619
Tax expense	(934)	(905)	(563)	(233)	19	91	(211)	(249)	29	28
Profit/(loss) for the periods	2,891	2,802	1,655	718	(423)	(713)	576	482	178	647
Other comprehensive (loss)/income	—	—	—	—	(76)	82	(211)	108	(286)	302
Total comprehensive income/(loss)	**2,891**	**2,802**	**1,655**	**718**	**(499)**	**(631)**	**365**	**590**	**(108)**	**949**
Dividends declared by joint venture	—	—	329	155	—	—	—	—	—	—
Share of net profit/(loss) from joint ventures	1,445	1,401	662	287	(212)	(357)	272	228	67	243
Share of other comprehensive (loss)/income from joint ventures	—	—	—	—	(38)	41	(100)	51	(107)	113

The share of profit and other comprehensive income for the six-month period ended 30 June 2017 in all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 2,799 million (2016: RMB 1,740 million) and RMB 533 million (2016: other comprehensive loss RMB 88 million) respectively. As at 30 June 2017, the carrying amount of all individually immaterial joint ventures accounted for using equity method in aggregate was RMB 28,660 million (31 December 2016: RMB 26,822 million).

Note:

(i) Excluding trade accounts payable and other payables.

(ii) Excluding provisions.

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

19 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2017 RMB million	31 December 2016 RMB million
Equity securities, listed and at quoted market price	238	262
Other investment, unlisted and at cost	11,116	11,175
	11,354	**11,437**
Less: Impairment loss for investments	29	29
	11,325	**11,408**

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

The impairment losses relating to investments for the period ended 30 June 2017 amounted to nil (2016: nil).

20 LEASE PREPAYMENTS

	Six-month periods ended 30 June 2017 RMB million	2016 RMB million
Cost:		
Balance at 1 January	68,467	63,324
Additions	215	227
Transferred from construction in progress	1,431	1,877
Transferred from other long-term assets	1,310	379
Exchange adjustments	(105)	66
Reclassification to other assets	(2,145)	(48)
Disposals	(238)	(25)
Balance at 30 June	**68,935**	**65,800**
Accumulated amortisation:		
Balance at 1 January	14,226	12,275
Amortisation charge for the period	948	933
Transferred from other long-term assets	476	13
Exchange adjustments	(40)	22
Reclassification to other assets	(456)	—
Written back on disposals	(200)	(10)
Balance at 30 June	**14,954**	**13,233**
Net book value:	**53,981**	**52,567**

21 LONG-TERM PREPAYMENTS AND OTHER ASSETS

	30 June 2017 RMB million	31 December 2016 RMB million
Operating rights of service stations	32,855	26,896
Long-term receivables from and prepayment to Sinopec Group Company and fellow subsidiaries	20,843	20,385
Prepayments for construction projects to third parties	3,232	2,234
Others (i)	20,919	20,630
	77,849	**70,145**

Note:

(i) Others mainly comprise prepaid operating lease charges over one year and catalyst expenditures.

The cost of operating rights of service stations is charged to expense on a straight-line basis over the respective periods of the rights. The movement of operating rights of service stations is as follows:

	Six-month periods ended 30 June 2017 RMB million	2016 RMB million
Operating rights of service stations		
Cost:		
Balance at 1 January	36,908	34,407
Additions	9,016	541
Decreases	(1)	(6)
Balance at 30 June	**45,923**	**34,942**
Accumulated amortisation:		
Balance at 1 January	10,012	8,310
Additions	3,057	859
Decreases	(1)	(4)
Balance at 30 June	**13,068**	**9,165**
Net book value at 30 June	**32,855**	**25,777**

22 TRADE ACCOUNTS RECEIVABLE AND BILLS RECEIVABLE

	30 June 2017 RMB million	31 December 2016 RMB million
Amounts due from third parties	43,564	39,994
Amounts due from Sinopec Group Company and fellow subsidiaries	3,207	6,398
Amounts due from associates and joint ventures	4,387	4,580
	51,158	**50,972**
Less: Impairment losses for bad and doubtful debts	(598)	(683)
Trade accounts receivable, net	**50,560**	**50,289**
Bills receivable	9,819	13,197
	60,379	**63,486**

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

	30 June 2017 RMB million	31 December 2016 RMB million
Within one year	59,894	63,051
Between one and two years	278	233
Between two and three years	23	177
Over three years	184	25
	60,379	**63,486**

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

	2017 RMB million	2016 RMB million
Balance at 1 January	683	525
Provision for the period	39	4
Written back for the period	(121)	(5)
Written off for the period	(1)	(11)
Others	(2)	—
Balance at 30 June	**598**	**513**

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

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

23 INVENTORIES

	30 June 2017 RMB million	31 December 2016 RMB million
Crude oil and other raw materials	75,668	75,680
Work in progress	14,475	14,141
Finished goods	74,593	65,772
Spare parts and consumables	3,385	1,838
	168,121	**157,431**
Less: Allowance for diminution in value of inventories	(1,063)	(920)
	167,058	**156,511**

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 924,849 million for the six-month period ended 30 June 2017 (2016: RMB 647,740 million). It includes the write-down of inventories of RMB 204 million (2016: RMB 258 million) and the reversal of write-down of inventories made in prior years of RMB 1 million (2016: RMB 2 million), which were recorded in purchased crude oil, products and operating supplies and expenses in the consolidated income statement. The write-down of inventories of RMB 51 million for the period ended 30 June 2017 (2016: RMB 3,034 million) was realised. The write-down of inventories is mainly related to the finished goods in marketing segment.

24 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	30 June 2017 RMB million	31 December 2016 RMB million
Other Receivables	23,204	26,056
Advances to suppliers	4,154	3,749
Value-added input tax to be deducted	17,252	18,055
Prepaid income tax	160	1,145
Derivative financial instruments	1,130	762
	45,900	**49,767**

25 DEFERRED TAX ASSETS AND LIABILITIES

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

	Deferred tax assets		Deferred tax liabilities		Net balance	
	30 June 2017 RMB million	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million	**30 June 2017 RMB million**	31 December 2016 RMB million
Current						
Receivables and inventories	1,449	347	—	—	1,449	347
Accruals	655	391	—	—	655	391
Cash flow hedges	18	27	(299)	(242)	(281)	(215)
Non-current						
Property, plant and equipment	11,397	11,264	(11,993)	(14,615)	(596)	(3,351)
Tax losses carried forward	2,151	2,477	—	—	2,151	2,477
Others	427	133	(190)	(229)	237	(96)
Deferred tax assets/(liabilities)	**16,097**	**14,639**	**(12,482)**	**(15,086)**	**3,615**	**(447)**

At 30 June 2017, certain subsidiaries of the Company did not recognise deferred tax of deductible loss carried forward of RMB 18,513 million (At 31 December 2016: RMB 19,194 million), of which RMB 1,637 million (2016: RMB 2,000 million) was incurred for the six-month period ended 30 June 2017, because it was not probable that the future taxable profits will be realised. These deductible losses carried forward of RMB 2,441million, RMB 2,565 million, RMB 3,957 million, RMB 4,080 million, RMB 3,833 million and RMB 1,637 million will expire in 2017, 2018, 2019, 2020, 2021, 2022 and after, respectively.

Periodically, management performed assessment on the probability that future taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have sufficient future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. During the six-month period ended 30 June 2017, write-down of deferred tax assets amounted to RMB 9 million (2016: RMB 43 million) (Note 10).

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

	Balance at 1 Januray 2016 RMB million	Recognised in consolidated income statement RMB million	Recognised in other comprehensive income RMB million	Balance at 30 June 2016 RMB million
Current				
Receivables and inventories	1,755	(542)	2	1,215
Accruals	413	462	—	875
Cash flow hedges	250	—	(382)	(132)
Non-current				
Property, plant and equipment	(9,131)	486	(129)	(8,774)
Tax losses carried forward	5,883	(696)	5	5,192
Others	40	(29)	—	11
Net deferred tax liabilities	**(790)**	**(319)**	**(504)**	**(1,613)**

25 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

	Balance at 1 January 2017 RMB million	Recognised in consolidated income statement RMB million	Recognised in other comprehensive income RMB million	**Balance at 30 June 2017 RMB million**
Current				
Receivables and inventories	347	1,104	(2)	1,449
Accruals	391	264	—	655
Cash flow hedges	(215)	(14)	(52)	(281)
Non-current				
Property, plant and equipment	(3,351)	2,614	141	(596)
Tax losses carried forward	2,477	(313)	(13)	2,151
Others	(96)	333	—	237
Net deferred tax (liabilities)/assets	**(447)**	**3,988**	**74**	**3,615**

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

Short-term debts represent:

	30 June 2017 RMB million	31 December 2016 RMB million
Third parties' debts		
Short-term bank loans	**19,063**	**11,944**
RMB denominated	17,460	10,931
US Dollar ("USD") denominated	1,603	1,013
Current portion of long-term bank loans	**6,577**	**8,795**
RMB denominated	6,553	8,753
USD denominated	24	42
Current portion of long-term corporate bonds	**18,266**	**29,500**
RMB denominated	11,500	—
USD denominated	6,766	29,500
	24,843	**38,295**
Corporate bonds (i)	**—**	**6,000**
	43,906	**56,239**
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	**22,969**	**18,430**
RMB denominated	983	2,858
USD denominated	20,213	13,577
Hong Kong Dollar ("HKD") denominated	1,739	1,969
EUR denominated	5	5
Singapore Dollar ("SGD") denominated	29	21
Current portion of long-term loans	**—**	**150**
RMB denominated	—	150
	22,969	**18,580**
	66,875	**74,819**

The Group's weighted average interest rates on short-term loans were 1.68% (2016: 2.42%) at 30 June 2017. The above borrowings are unsecured.

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

Long-term debts represent:

	Interest rate and final maturity	30 June 2017 RMB million	31 December 2016 RMB million
Third parties' debts			
Long-term bank loans			
RMB denominated	Interest rates ranging from 1.08% to 4.41% per annum at 30 June 2017 with maturities through 2030	29,404	26,058
USD denominated	Interest rates ranging from 1.55% to 4.29% per annum at 30 June 2017 with with maturities through 2031	386	426
		29,790	**26,484**
Corporate bonds (ii)			
RMB denominated	Fixed interest rates ranging from 3.30% to 5.68% per annum at 30 June 2017 with maturity through 2022	47,500	65,500
USD denominated	Fixed interest rates ranging from 1.88% to 4.25% per annum at 30 June 2017 with maturities through 2043	18,550	18,985
		66,050	**84,485**
Total third parties' long-term debts		**95,840**	**110,969**
Less: Current portion		(24,843)	(38,295)
		70,997	**72,674**
Long-term loans from Sinopec Group Company and fellow subsidiaries			
RMB denominated	Interest rates ranging from interest free to 3.92% per annum at 30 June 2017 with maturities through 2021	44,832	44,922
Less: Current portion		—	(150)
		44,832	**44,772**
		115,829	**117,446**

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

Note:

(i) The Company issued 182-day corporate bonds of face value RMB 6 billion to corporate investors in the PRC debenture market on 12 September 2016 at par value of RMB 100. The effective cost of the 182-day corporate bonds is 2.54% per annum. The short-term bonds were due on 14 March 2017 and have been fully paid by the Group at maturity.

(ii) These corporate bonds are carried at amotised cost. At 30 June 2017, RMB 18,550 million (USD demoniated corporate bonds) are guaranteed by Sinopec Group Company.

27 TRADE ACCOUNTS AND BILLS PAYABLES

	30 June 2017 RMB million	31 December 2016 RMB million
Amounts due to third parties	158,991	154,882
Amounts due to Sinopec Group Company and fellow subsidiaries	4,920	13,168
Amounts due to associates and joint ventures	6,205	6,251
	170,116	**174,301**
Bills payable	6,162	5,828
Trade accounts and bills payables measured at amortised cost	**176,278**	**180,129**

27 TRADE ACCOUNTS AND BILLS PAYABLES *(Continued)*

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

	30 June 2017 RMB million	31 December 2016 RMB million
Within 1 month or on demand	165,005	159,953
Between 1 month and 6 months	8,843	12,693
Over 6 months	2,430	7,483
	176,278	**180,129**

28 ACCRUED EXPENSES AND OTHER PAYABLES

	30 June 2017 RMB million	31 December 2016 RMB million
Salaries and welfare payable	4,190	1,618
Interest payable	1,320	1,396
Dividend payable	22,336	2,006
Payables for constructions	40,515	52,827
Other payables	22,439	19,462
Financial liabilities carried at amortised costs	**90,800**	**77,309**
Taxes other than income tax	26,665	46,835
Receipts in advance	96,039	95,928
Derivative financial instruments	560	4,472
	214,064	**224,544**

29 PROVISIONS

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

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

	2017 RMB million	2016 RMB million
Balance at 1 January	36,918	33,115
Provision for the period	493	1,700
Accretion expenses	659	495
Utilised	(75)	(182)
Exchange adjustments	(66)	45
Balance at 30 June	**37,929**	**35,173**

30 SHARE CAPITAL

	30 June 2017 RMB million	31 December 2016 RMB million
Registered, issued and fully paid		
95,557,771,046 listed A shares (2016: 95,557,771,046) of RMB 1.00 each	95,558	95,558
25,513,438,600 listed H shares (2016: 25,513,438,600) of RMB 1.00 each	25,513	25,513
	121,071	**121,071**

30 SHARE CAPITAL *(Continued)*

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

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

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

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

During the year ended 31 December 2010, the Company issued 88,774 listed A shares with a par value of RMB 1.00 each, as a result of exercise of 188,292 warrants entitled to the Bonds with Warrants.

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

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

On 14 February 2013, the Company issued 2,845,234,000 listed H shares ("the Placing") with a par value of RMB 1.00 each at the Placing Price of HKD 8.45 per share. The aggregate gross proceeds from the Placing amounted to approximately HKD 24,042,227,300.00 and the aggregate net proceeds (after deduction of the commissions and estimated expenses) amounted to approximately HKD 23,970,100,618.00.

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

During the year ended 31 December 2013, the Company issued 114,076 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2014, the Company issued 1,715,081,853 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

During the year ended 31 December 2015, the Company issued 2,790,814,006 listed A shares with a par value of RMB 1.00 each, as a result of conversion by the holders of the 2011 Convertible Bonds.

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

Capital management

Management optimises the structure of the Group's capital, which comprises of equity and debts. In order to maintain or adjust the capital structure of the Group, management may cause the Group to issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. Management monitors capital on the basis of the debt-to-capital ratio, which is calculated by dividing long-term loans (excluding current portion), including long-term debts and loans from Sinopec Group Company and fellow subsidiaries, by the total of equity attributable to shareholders of the Company and long-term loans (excluding current portion), and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. Management's strategy is to make appropriate adjustments according to the Group's operating and investment needs and the changes of market conditions, and to maintain the debt-to-capital ratio and the liability-to-asset ratio of the Group at a range considered reasonable. As at 30 June 2017, the debt-to-capital ratio and the liability-to-asset ratio of the Group were 13.9% (2016: 14.2%) and 43.2% (2016: 44.5%), respectively.

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

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

31 COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments

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

At 30 June 2017 and 31 December 2016, the future minimum lease payments under operating leases are as follows:

	30 June 2017 RMB million	31 December 2016 RMB million
Within one year	10,836	14,917
Between one and two years	11,070	14,228
Between two and three years	10,296	13,966
Between three and four years	10,069	13,217
Between four and five years	9,919	12,980
Thereafter	201,329	275,570
	253,519	**344,878**

Capital commitments

At 30 June 2017 and 31 December 2016, capital commitments are as follows:

	30 June 2017 RMB million	31 December 2016 RMB million
Authorised and contracted for (i)	116,385	116,379
Authorised but not contracted for	53,299	31,720
	169,684	**148,099**

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

Note:

(i) The investment commitments of the Group is RMB 5,326 million (2016: RMB 4,173 million).

Commitments to joint ventures

Pursuant to certain of the joint venture agreements entered into by the Group, the Group is obliged to purchase products from the joint ventures based on market prices.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation is given by the State Council. The maximum term of production licenses issued to the Group is 80 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed.

31 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Exploration and production licenses *(Continued)*
Estimated future annual payments are as follows:

	30 June 2017 RMB million	31 December 2016 RMB million
Within one year	209	263
Between one and two years	76	123
Between two and three years	24	25
Between three and four years	25	24
Between four and five years	25	25
Thereafter	859	867
	1,218	**1,327**

Contingent liabilities
At 30 June 2017 and 31 December 2016, guarantees by the group in respect of facilities granted to the parties below are as follows:

	30 June 2017 RMB million	31 December 2016 RMB million
Joint ventures	985	658
Associates (ii)	12,734	11,545
Others	10,586	10,669
	24,305	**22,872**

Management monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are estimable. At 30 June 2017 and 31 December 2016, it was not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements.

Note:

(ii) The Group provided a guarantee in respect to standby credit facilities granted to Zhongtian Synergetic Energy by banks amount to RMB 17,050 million. As at 30 June 2017, the amount withdrawn by Zhongtian Synergetic Energy and guaranteed by the Group was RMB 12,734 million.

Environmental contingencies
Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect management's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group recognized normal routine pollutant discharge fees of approximately RMB 2,786 million for the six-month period in the consolidated financial statements ended 30 June 2017 (2016: RMB 2,508 million).

Legal contingencies
The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavourable outcome of such contingencies, lawsuits or other proceedings and believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

32 RELATED PARTY TRANSACTIONS

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

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

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

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

	Note	Six-month periods ended 30 June	
		2017	2016
		RMB million	RMB million
Sales of goods	(i)	115,853	83,694
Purchases	(ii)	72,881	55,676
Transportation and storage	(iii)	3,682	561
Exploration and development services	(iv)	5,723	5,701
Production related services	(v)	5,501	2,943
Ancillary and social services	(vi)	3,209	3,169
Operating lease charges for land	(vii)	3,988	5,264
Operating lease charges for buildings	(vii)	207	160
Other operating lease charges	(vii)	390	189
Agency commission income	(viii)	63	60
Interest income	(ix)	322	98
Interest expense	(x)	228	600
Net deposits (placed with)/withdrawn from related parties	(ix)	(5,088)	6,538
Net loans obtained from/(repaid to) related parties	(xi)	4,449	(1,201)

The amounts set out in the table above in respect of the six-month periods ended 30 June 2017 and 2016 represent the relevant costs and income as determined by the corresponding contracts with the related parties.

Included in the transactions disclosed above, for the six-month period ended 30 June 2017 are: a) purchases by the Group from Sinopec Group Company and fellow subsidiaries amounting to RMB 51,507 million (2016: RMB 52,786 million) comprising purchases of products and services (i.e. procurement, transportation and storage, exploration and development services and production related services) of RMB 43,875 million (2016: RMB 43,593 million), ancillary and social services provided by Sinopec Group Company and fellow subsidiaries of RMB 3,209 million (2016: RMB 3,169 million), operating lease charges for land and buildings paid by the Group of RMB 3,988 million and RMB 207 million (2016: RMB 5,264 million and RMB 160 million), respectively and interest expenses of RMB 228 million (2016: RMB 600 million); and b) sales by the Group to Sinopec Group Company and fellow subsidiaries amounting to RMB 23,992 million (2016: RMB 20,889 million), comprising RMB 23,659 million (2016: RMB 20,777 million) for sales of goods, RMB 322 million (2016: RMB 98 million) for interest income and RMB 11 million (2016: RMB 14 million) for agency commission income.

At 30 June 2017 and 31 December 2016, there were no guarantee given to banks by the Group in respect of banking facilities to related parties, except for the guarantees disclosed in Note 31.

32 RELATED PARTY TRANSACTIONS *(Continued)*

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

Note:

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

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

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

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

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

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

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

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

(ix) Interest income represents interest received from deposits placed with Sinopec Finance Company Limited and Sinopec Century Bright Capital Investment Limited, finance companies controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 30 June 2017 was RMB 45,161 million (2016: RMB 40,073 million).

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

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

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the six-month period ended 30 June 2017. The terms of these agreements are summarised as follows:

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

  (1) the government-prescribed price;

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

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

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

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

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

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

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

32 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Trade accounts receivable	7,594	10,978
Prepaid expenses and other current assets	13,449	13,430
Long-term prepayments and other assets	20,843	20,385
Total	**41,886**	**44,793**
Trade accounts payable	11,125	19,419
Accrued expenses and other payables	28,860	21,590
Other long-term liabilities	10,162	9,998
Short-term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	22,969	18,580
Long-term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	44,832	44,772
Total	**117,948**	**114,359**

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

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

As at and for the six-month period ended 30 June 2017, and as at and for the year ended 31 December 2016, no individually significant impairment losses for bad and doubtful debts were recognised in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and joint ventures.

(b) Key management personnel emoluments

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

	Six-month periods ended 30 June	
	2017 RMB'000	2016 RMB'000
Short-term employee benefits	2,501	3,066
Retirement scheme contributions	183	268
	2,684	**3,334**

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 33. As at 30 June 2017 and 31 December 2016, the accrual for the contribution to post-employment benefit plans was not material.

32 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

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

- sales and purchases of goods and ancillary materials;
- rendering and receiving services;
- lease of assets;
- depositing and borrowing money; and
- uses of public utilities.

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

33 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 24.0% of the salaries, bonuses and certain allowances of its staff. In addition, the Group provides a supplementary retirement plan for its staff at rates not exceeding 5% of the salaries. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group's contributions for the six-month period ended 30 June 2017 were RMB 4,413 million (2016: RMB 4,113 million).

34 SEGMENT REPORTING

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

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

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

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

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

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

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

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

34 SEGMENT REPORTING *(Continued)*

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

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

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

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Turnover		
Exploration and production		
External sales	33,053	22,960
Inter-segment sales	37,395	26,162
	70,448	**49,122**
Refining		
External sales	64,292	49,622
Inter-segment sales	421,539	345,251
	485,831	**394,873**
Marketing and distribution		
External sales	589,475	489,025
Inter-segment sales	1,818	1,282
	591,293	**490,307**
Chemicals		
External sales	178,665	126,293
Inter-segment sales	22,948	17,415
	201,613	**143,708**
Corporate and others		
External sales	272,343	168,896
Inter-segment sales	215,148	143,119
	487,491	**312,015**
Elimination of inter-segment sales	(698,848)	(533,229)
Turnover	**1,137,828**	**856,796**
Other operating revenues		
Exploration and production	3,661	3,387
Refining	2,341	2,096
Marketing and distribution	14,667	10,662
Chemicals	6,816	5,478
Corporate and others	524	801
Other operating revenues	**28,009**	**22,424**
Turnover and other operating revenues	**1,165,837**	**879,220**

34 SEGMENT REPORTING *(Continued)*

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

	Six-month periods ended 30 June 2017 RMB million	2016 RMB million
Result		
Operating (loss)/profit		
By segment		
– Exploration and production	(18,334)	(21,929)
– Refining	29,393	32,588
– Marketing and distribution	16,566	15,777
– Chemicals	12,157	9,678
– Corporate and others	739	422
– Elimination	(1,212)	(1,428)
Total segment operating profit	**39,309**	**35,108**
Share of profits/(losses) from associates and joint ventures		
– Exploration and production	875	(481)
– Refining	409	1,015
– Marketing and distribution	1,416	869
– Chemicals	4,242	2,547
– Corporate and others	709	648
Aggregate share of profits from associates and joint ventures	**7,651**	**4,598**
Investment income/(loss)		
– Exploration and production	48	23
– Refining	10	(7)
– Marketing and distribution	48	42
– Chemicals	115	21
– Corporate and others	65	20
Aggregate investment income	**286**	**99**
Net finance costs	**(1,289)**	**(4,284)**
Profit before taxation	**45,957**	**35,521**

	At 30 June 2017 RMB million	At 31 December 2016 RMB million
Assets		
Segment assets		
– Exploration and production	366,924	402,476
– Refining	259,145	260,903
– Marketing and distribution	295,060	292,328
– Chemicals	139,120	144,371
– Corporate and others	95,730	95,263
Total segment assets	**1,155,979**	**1,195,341**
Interest in associates and joint ventures	122,296	116,812
Available-for-sale financial assets	11,325	11,408
Deferred tax assets	9,761	7,214
Cash and cash equivalents and time deposits with financial institutions	160,822	142,497
Other unallocated assets	27,355	25,337
Total assets	**1,487,538**	**1,498,609**
Liabilities		
Segment liabilities		
– Exploration and production	84,838	95,944
– Refining	59,576	82,170
– Marketing and distribution	141,494	133,303
– Chemicals	30,591	32,072
– Corporate and others	90,394	97,080
Total segment liabilities	**406,893**	**440,569**
Short-term debts	43,906	56,239
Income tax payable	5,192	6,051
Long-term debts	70,997	72,674
Loans from Sinopec Group Company and fellow subsidiaries	67,801	63,352
Deferred tax liabilities	6,146	7,661
Other unallocated liabilities	42,012	20,828
Total liabilities	**642,947**	**667,374**

34 SEGMENT REPORTING *(Continued)*

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

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
Capital expenditure		
Exploration and production	6,870	5,168
Refining	3,672	2,774
Marketing and distribution	2,500	2,610
Chemicals	2,594	2,440
Corporate and others	317	482
	15,953	**13,474**
Depreciation, depletion and amortisation		
Exploration and production	32,097	26,348
Refining	8,669	8,488
Marketing and distribution	7,575	7,038
Chemicals	5,970	6,300
Corporate and others	906	931
	55,217	**49,105**
Impairment losses on long-lived assets		
Exploration and production	3,487	—
Refining	166	1,108
Marketing and distribution	—	31
Chemicals	309	118
	3,962	**1,257**

(2) Geographical information

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

	Six-month periods ended 30 June	
	2017	2016
	RMB million	RMB million
External sales		
Mainland China	865,869	704,300
Others	299,968	174,920
	1,165,837	**879,220**

	30 June 2017	31 December 2016
	RMB million	RMB million
Non-current assets		
Mainland China	967,644	1,000,209
Others	42,636	45,887
	1,010,280	**1,046,096**

35 PRINCIPAL SUBSIDIARIES

At 30 June 2017, the following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Particulars of issued capital (million)	Interests held by the Company %	Interests held by non-controlling interests %	Principal activities
Sinopec International Petroleum Exploration and Production Limited ("SIPL")	RMB 8,000	100.00	—	Investment in exploration, production and sale of petroleum and natural gas
Sinopec Great Wall Energy & Chemical Company Limited	RMB 20,739	100.00	—	Coal chemical industry investment management, production and sale of coal chemical products
Sinopec Yangzi Petrochemical Company Limited	RMB 13,203	100.00	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Pipeline Storage & Transportation Company Limited	RMB 12,000	100.00	—	Pipeline storage and transportation of crude oil
Sinopec Yizheng Chemical Fibre Limited Liability Company	RMB 4,000	100.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Lubricant Company Limited	RMB 3,374	100.00	—	Production and sale of refined petroleum products, lubricant base oil, and petrochemical materials
Sinopec Qingdao Petrochemical Company Limited	RMB 1,595	100.00	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Chemical Sales Company Limited	RMB 1,000	100.00	—	Marketing and distribution of petrochemical products
China International United Petroleum and Chemical Company Limited	RMB 3,000	100.00	—	Trading of crude oil and petrochemical products
Sinopec Overseas Investment Holding Limited ("SOIH")	USD 1,638	100.00	—	Investment holding
Sinopec Catalyst Company Limited	RMB 1,500	100.00	—	Production and sale of catalyst products
China Petrochemical International Company Limited	RMB 1,400	100.00	—	Trading of petrochemical products
Sinopec Beihai Refining and Chemical Limited Liability Company	RMB 5,294	98.98	1.02	Import and processing of crude oil, production, storage and sale of petroleum products and petrochemical products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 5,000	85.00	15.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhanjiang Dongxing Petrochemical Company Limited	RMB 4,397	75.00	25.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Hainan Refining and Chemical Company Limited	RMB 3,986	75.00	25.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Marketing Company Limited ("Marketing Company")	RMB 28,403	70.42	29.58	Marketing and distribution of refined petroleum products
Sinopec–SK(Wuhan) Petrochemical Company Limited ("Zhonghan Wuhan")	RMB 6,270	65.00	35.00	Production, sale, research and development of ethylene and downstream byproducts
Sinopec Kantons Holdings Limited ("Sinopec Kantons")	HKD 248	60.34	39.66	Trading of crude oil and petroleum products
Gaoqiao Petrochemical Company Limited (Note 1)	RMB 10,000	55.00	45.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited ("Shanghai Petrochemical")	RMB 10,800	50.56	49.44	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited ("Fujian Petrochemical") (i)	RMB 5,745	50.00	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products

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

Note:

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

35 PRINCIPAL SUBSIDIARIES *(Continued)*

Summarised financial information on subsidiaries with material non-controlling interests

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

Summarised consolidated balance sheet

	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Zhonghan Wuhan	
	At 30 June 2017 RMB million	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million	**At 30 June 2017 RMB million**	At 31 December 2016 RMB million
Current assets	131,655	121,260	18,884	18,116	18,262	14,876	567	926	1,130	1,352	1,616	1,489
Current liabilities	(161,987)	(168,366)	(7,394)	(824)	(12,219)	(8,942)	(157)	(812)	(2,645)	(2,891)	(5,605)	(7,521)
Net current (liabilities)/assets	(30,332)	(47,106)	11,490	17,292	6,043	5,934	410	114	(1,515)	(1,539)	(3,989)	(6,032)
Non-current assets	243,708	246,514	38,183	40,067	18,867	19,070	9,635	7,845	13,280	13,228	14,058	14,686
Non-current liabilities	(1,712)	(1,460)	(31,249)	(39,322)	—	—	(721)	(721)	(2,570)	(3,101)	(21)	—
Net non-current assets	241,996	245,054	6,934	745	18,867	19,070	8,914	7,124	10,710	10,127	14,037	14,686
Net assets	211,664	197,948	18,424	18,037	24,910	25,004	9,324	7,238	9,195	8,588	10,048	8,654
Attributable to owners of the Company	143,844	134,393	3,164	2,784	12,452	12,500	4,662	3,619	5,529	5,162	6,531	5,625
Attributable to non-controlling interests	67,820	63,555	15,260	15,253	12,458	12,504	4,662	3,619	3,666	3,426	3,517	3,029

Summarised consolidated statement of comprehensive income

Six-month periods ended 30 June	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Zhonghan Wuhan	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Turnover	604,612	499,651	2,756	2,449	43,081	36,969	3,003	2,420	835	725	8,045	4,196
Profit/(loss) for the period	14,380	12,436	561	(166)	2,603	3,154	1,510	1,435	621	431	1,442	46
Total comprehensive income	14,114	12,625	137	265	2,603	3,154	1,510	1,435	704	291	1,442	46
Comprehensive income attributable to non-controlling interests	4,664	4,134	7	312	1,289	1,562	755	718	270	115	505	16
Dividends paid to non-controlling interests	440	1,071	—	—	1,339	559	—	—	30	21	—	—

Summarised consolidated statement of cash flows

Six-month periods ended 30 June	Marketing Company		SIPL		Shanghai Petrochemical		Fujian Petrochemical		Sinopec Kantons		Zhonghan Wuhan	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Net cash generated from/(used in) operating activities	17,563	18,615	1,976	1,131	2,350	4,614	(578)	93	824	650	1,296	800
Net cash (used in)/generated from investing activities	(10,708)	(3,924)	(857)	3,578	111	(6)	(488)	5	111	(2,632)	(1,235)	(890)
Net cash (used in)/generated from financing activities	(7,427)	(4,753)	261	(5,144)	63	(1,236)	516	(3)	(1,016)	1,521	(183)	(36)
Net (decrease)/increase in cash and cash equivalents	(572)	9,938	1,380	(435)	2,524	3,372	(550)	95	(81)	(461)	(122)	(126)
Cash and cash equivalents at 1 January	14,373	14,914	3,045	2,042	5,441	1,077	717	101	289	886	134	260
Effect of foreign currency exchange rate changes	(127)	213	(89)	30	(9)	2	—	—	7	11	—	—
Cash and cash equivalents at 30 June	13,674	25,065	4,336	1,637	7,956	4,451	167	196	215	436	12	134

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Overview

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

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

- credit risk;
- liquidity risk;
- market risk.

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's deposits placed with financial institutions and receivables from customers. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings. The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. No single customer accounted for greater than 10% of total accounts receivable at 30 June 2017, except the amounts due from Sinopec Group Company and fellow subsidiaries. Management performs ongoing credit evaluations of the Group's customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for doubtful accounts and actual losses have been within management's expectations.

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

Liquidity risk

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

At 30 June 2017, the Group has standby credit facilities with several PRC financial institutions which provide borrowings up to RMB 366,899 million (2016: RMB 256,375 million) on an unsecured basis, at a weighted average interest rate of 3.24% per annum (2016: 3.57%). At 30 June 2017, the Group's outstanding borrowings under these facilities were RMB 48,855 million (2016: RMB 36,933 million) and were included in debts.

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36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Liquidity risk *(Continued)*

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

	30 June 2017					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million
Short-term debts	43,906	44,766	44,766	—	—	—
Long-term debts	70,997	83,402	2,698	19,663	38,843	22,198
Loans from Sinopec Group Company and fellow subsidiaries	67,801	68,099	23,116	2,103	42,880	—
Trade accounts payable	170,116	170,116	170,116	—	—	—
Bills payable	6,162	6,162	6,162	—	—	—
Accrued expenses and other payables	91,360	91,360	91,360	—	—	—
	450,342	**463,905**	**338,218**	**21,766**	**81,723**	**22,198**

	31 December 2016					
	Carrying amount RMB million	Total contractual undiscounted cash flow RMB million	Within 1 year or on demand RMB million	More than 1 year but less than 2 years RMB million	More than 2 years but less than 5 years RMB million	More than 5 years RMB million
Short-term debts	56,239	57,515	57,515	—	—	—
Long-term debts	72,674	85,021	2,672	27,277	30,535	24,537
Loans from Sinopec Group Company and fellow subsidiaries	63,352	63,678	18,790	2,092	42,796	—
Trade accounts payable	174,301	174,301	174,301	—	—	—
Bills payable	5,828	5,828	5,828	—	—	—
Accrued expenses and other payables	81,781	81,781	81,781	—	—	—
	454,175	**468,124**	**340,887**	**29,369**	**73,331**	**24,537**

Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Group's short-term and long-term capital requirements.

Market risk

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

Currency risk

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

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

	30 June 2017 million	31 December 2016 million
Gross exposure arising from loans		
USD	USD 156	USD 126

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Currency risk *(Continued)*

A 5 percent strengthening/weakening of Renminbi against the following currencies at 30 June 2017 and 31 December 2016 would have increased/decreased net profit for the period/year of the Group by the amounts shown below. This analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the foreign currency balances to which the Group has significant exposure as stated above, and that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	30 June 2017 RMB million	31 December 2016 RMB million
USD	40	33

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

Interest rate risk

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

As at 30 June 2017, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the period by approximately RMB 408 million (2016: RMB decrease/increase 327 million). This sensitivity analysis has been determined assuming that the change of interest rates was applied to the Group's debts outstanding at the balance sheet date with exposure to cash flow interest rate risk. The analysis is performed on the same basis for 2016.

Commodity price risk

The Group engages in oil and gas operations and is exposed to commodity price risk related to price volatility of crude oil, refined oil products and chemical products. The fluctuations in prices of crude oil, refined oil products and chemical products could have significant impact on the Group. The Group uses derivative financial instruments, including commodity futures and swaps, to manage a portion of this risk. As at 30 June 2017, the Group had certain commodity contracts of crude oil, refined oil products and chemical products designated as qualified cash flow hedges and economic hedges. The fair values of these derivative financial instruments as at 30 June 2017 are set out in Notes 24 and 28.

As at 30 June 2017, it is estimated that a general increase/decrease of USD 10 per barrel in basic price of derivative financial instruments, with all other variables held constant, would impact the fair value of derivative financial instruments, which would decrease/increase the Group's profit for the period by approximately RMB 520 million (2016: decrease/increase RMB 634 million), and decrease/increase the Group's other reserves by approximately RMB1,284 million (2016: decrease/increase RMB 4,007 million). This sensitivity analysis has been determined assuming that the change in prices had occurred at the balance sheet date and the change was applied to the Group's derivative financial instruments at that date with exposure to commodity price risk. The analysis is performed on the same basis for 2016.

Fair values

(i) Financial instruments carried at fair value

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

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

36 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

Fair values *(Continued)*

(i) Financial instruments carried at fair value *(Continued)*

At 30 June 2017

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	238	—	—	238
Derivative financial instruments:				
– Derivative financial assets	234	896	—	1,130
	472	**896**	**—**	**1,368**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	164	396	—	560
	164	**396**	**—**	**560**

At 31 December 2016

	Level 1 RMB million	Level 2 RMB million	Level 3 RMB million	Total RMB million
Assets				
Available-for-sale financial assets:				
– Listed	262	—	—	262
Derivative financial instruments:				
– Derivative financial assets	29	733	—	762
	291	**733**	**—**	**1,024**
Liabilities				
Derivative financial instruments:				
– Derivative financial liabilities	2,586	1,886	—	4,472
	2,586	**1,886**	**—**	**4,472**

During the six-month period ended 30 June 2017, there were no transfers between instruments in Level 1 and Level 2.

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

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

The fair values of the Group's financial instruments carried at other than fair value (other than long-term indebtedness and investments in unquoted equity securities) approximate their carrying amounts due to the short-term maturity of these instruments. The fair values of long-term indebtedness are estimated by discounting future cash flows using current market interest rates offered to the Group from 1.75% to 4.90 % (2016: 1.06% to 4.90%). The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 30 June 2017 and 31 December 2016:

	30 June 2017 RMB million	31 December 2016 RMB million
Carrying amount	95,840	110,969
Fair value	95,676	109,308

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

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

Except for the above items, the financial assets and liabilities of the Group are carried at amounts not materially different from their fair values at 30 June 2017 and 31 December 2016.

37 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in relation to depreciation rates. Oil and gas reserves have a direct impact on the assessment of the recoverability of the carrying amounts of oil and gas properties reported in the financial statements. If proved reserves estimates are revised downwards, earnings could be affected by changes in depreciation expense or an immediate write-down of the property's carrying amount.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment loss and future dismantlement costs. Capitalised costs of proved oil and gas properties are amortised on a unit–of–production method based on volumes produced and reserves.

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

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

37 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Impairment for bad and doubtful debts

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

Allowance for diminution in value of inventories

If the costs of inventories become higher than their net realisable values, an allowance for diminution in value of inventories is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

38 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 30 June 2017 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

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

(I) GOVERNMENT GRANTS

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

(II) SAFETY PRODUCTION FUND

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

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

	Note	Six-month periods ended 30 June **2017** **RMB million**	 2016 RMB million
Net profit under ASBE		36,117	26,381
Adjustments:			
Government grants	(i)	55	55
Safety production fund	(ii)	870	706
Profit for the period under IFRS*		**37,042**	**27,142**

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

	Note	**30 June 2017** **RMB million**	31 December 2016 RMB million
Shareholders' equity under ASBE		845,826	832,525
Adjustments:			
Government grants	(i)	(1,235)	(1,290)
Total equity under IFRS*		**844,591**	**831,235**

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

The following documents will be available for inspections during the normal business hours after 25 August 2017 (Friday) at the legal address of Sinopec Corp. upon the requests by the relevant regulatory authorities and shareholders in accordance with the Articles of Association of Sinopec Corp. and relevant laws and regulations:

1 The original interim report for the first half of 2017 signed by Mr. Wang Yupu., Chairman of the Board;

2 The original audited financial statements and consolidated financial statements of Sinopec Corp. for the six-month period ended 30 June 2017 prepared in accordance with IFRS and the ASBE, signed by Mr. Wang Yupu, Chairman of the Board, Mr. Dai Houliang, Vice Chairman and President, Mr. Wang Dehua, Chief Financial Officer and head of accounting department;

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

4 Copies of documents and announcements published by Sinopec Corp. in the newspapers designated by the CSRC during the reporting period.

By Order of the Board
Wang Yupu
Chairman

Beijing, PRC, 25 August 2017

If there is any inconsistency between the Chinese and English versions of this interim report, the Chinese version shall prevail.

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