

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

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

For the month of March, 2017

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

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

Form 20-F Form 40-F

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

Yes No

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

N/A

This Form 6-K consists of:

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

China Petroleum & Chemical Corporation

By: /s/ Huang Wensheng

Name: Huang Wensheng

Title: Vice President and Secretary to the Board of Directors

Date: March 28, 2017

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

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

COMPANY PROFILE

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

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

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

Exploration and Production Refining Marketing and Distribution Chemicals

COMPANY PROFILE

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

DEFINITIONS:

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

Sinopec Corp.: China Petroleum & Chemical Corporation;

Company: Sinopec Corp. and its subsidiaries;

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

Sinopec group: China Petrochemical Corporation and its subsidiaries;

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

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

CSRC: China Securities Regulatory Commission.

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

Conversion:

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

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

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

Refinery throughput is converted at 1 tonne = 7.35 barrels.

PRINCIPAL FINANCIAL DATA AND INDICATORS

1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ASBE

(1) Principal financial data

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

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

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

(2) Principal financial indicators

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

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

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

(3) Extraordinary items and corresponding amounts

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

(4) Items measured by fair values

Unit: RMB million

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

(5) Significant changes of items in the financial statements

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

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

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

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

Unit: RMB million

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

Unit: RMB million

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

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

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL

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

2 NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS

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

(1) Shareholdings of top ten shareholders

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

Unit: Share

Name of shareholders

China Petrochemical Corporation

HKSCC Nominees Limited²

HKSCC Nominees Limited

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

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

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

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

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

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

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

3 ISSUANCE AND LISTING OF SECURITIES

(1) Issuance of securities in reporting period

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

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

(2) Existing employee shares

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

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

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

4 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

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

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

(1) Controlling shareholder

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

Shares of other listed companies directly held by China Petrochemical Corporation

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

CHAIRMAN'S STATEMENT

Mr. Wang Yupu, Chairman

Dear Shareholders and Friends:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Wang Yupu
Chairman

Beijing, China 24 March 2017

BUSINESS REVIEW AND PROSPECTS

BUSINESS REVIEW

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

1 MARKET REVIEW

(1) Crude Oil Market

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

(2) Refined Oil Products Market

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

(3) Chemical Products Market

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

2 PRODUCTION & OPERATIONS REVIEW

(1) Exploration and Production

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

Summary of Operations for the Exploration and Production Segment

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

Summary of Reserves of Crude Oil and Natural Gas

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

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