

**IMPORTANT NOTICE**

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

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

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

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

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

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

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

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

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

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

OFFERING MEMORANDUM

**Sinopec Group Overseas Development (2015) Limited**

(incorporated in the British Virgin Islands with limited liability)

**US\$2,500,000,000 2.50% Senior Notes Due 2020**

**US\$1,500,000,000 3.25% Senior Notes Due 2025**

**US\$800,000,000 4.10% Senior Notes Due 2045**

**€850,000,000 0.50% Senior Notes Due 2018**

**€650,000,000 1.00% Senior Notes Due 2022**

*unconditionally and irrevocably guaranteed by*



**CHINA PETROCHEMICAL CORPORATION**

**中国石油化工集团公司**

*(a state-owned enterprise incorporated in the People's Republic of China)*

The US\$2,500,000,000 2.50% Senior Notes due 2020 (the "2020 Notes"), the US\$1,500,000,000 3.25% Senior Notes due 2025 (the "2025 Notes"), and the US\$800,000,000 4.10% Senior Notes due 2045 (the "2045 Notes," together with the 2020 Notes and the 2025 Notes, the "Dollar Notes") will be the unsubordinated senior obligations of Sinopec Group Overseas Development (2015) Limited (the "Issuer"). The 2020 Notes, the 2025 Notes and the 2045 Notes will bear interest at a rate of 2.50%, 3.25% and 4.10% per year, respectively. Interest on the Dollar Notes will accrue from April 28, 2015. Interest will be paid on the 2020 Notes, the 2025 Notes and the 2045 Notes semi-annually in arrears on April 28 and October 28 of each year, beginning on October 28, 2015. Unless previously repurchased, cancelled or redeemed, the 2020 Notes, the 2025 Notes and the 2045 Notes will mature on April 28, 2020, April 28, 2025 and April 28, 2045, respectively.

The €850,000,000 0.50% Senior Notes due 2018 (the "2018 Euro Notes") and the €650,000,000 1.00% Senior Notes due 2022 (the "2022 Euro Notes" and, together with the 2018 Euro Notes, the Euro Notes", and the Euro Notes together with the Dollar Notes, the "Notes") will be the unsubordinated senior obligations of the Issuer. The 2018 Euro Notes and the 2022 Euro Notes will bear interest at a rate of 0.50% and 1.00% per year, respectively. Interest on the Euro Notes will accrue from April 28, 2015. The first interest payment on the 2018 Euro Notes will be made on April 27, 2016 in respect of the period from, and including April 28, 2015 to (but not including) April 27, 2016, and thereafter will be paid annually in arrears on April 27 in each year. Interest on the 2022 Euro Notes will be paid annually in arrears on April 28 of each year, beginning on April 28, 2016. Unless previously repurchased, cancelled or redeemed, the 2018 Euro Notes and the 2022 Euro Notes will mature on April 27, 2018 and April 28, 2022, respectively.

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

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

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

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 26.**

The Notes are expected to be assigned a rating of "Aa3" by Moody's Investors Service, Inc. ("Moody's") and "AA-" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Moody's or S&P. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

The Issuer has received an eligibility letter from The Stock Exchange of Hong Kong Limited (the "SEHK") for listing of, and permission to deal in, the Notes by way of debt issues to professional investors only (as defined in the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules")). The SEHK assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained in this offering memorandum. Listing of the Notes on the SEHK is not to be taken as an indication of the merits of the Notes, the Guarantees, the Issuer or the Company.

Application has been made to the Irish Stock Exchange (the "ISE") for the approval of this document as listing particulars (the "Listing Particulars"). Application has been made to the ISE for the Euro Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange-regulated market of the ISE. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. This document constitutes the Listing Particulars in respect of the admission of the Euro Notes to the Official List and to trading on the Global Exchange Market of the ISE.

**Offering Price for the 2020 Notes: 99.576% of principal amount plus accrued interest from April 28, 2015**

**Offering Price for the 2025 Notes: 99.022% of principal amount plus accrued interest from April 28, 2015**

**Offering Price for the 2045 Notes: 100.00% of principal amount plus accrued interest from April 28, 2015**

**Offering Price for the 2018 Euro Notes: 99.716% of principal amount plus accrued interest from April 28, 2015**

**Offering Price for the 2022 Euro Notes: 99.243% of principal amount plus accrued interest from April 28, 2015**

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

It is expected that delivery of the Dollar Notes will be made to investors in book-entry form through the facilities of the Depository Trust Company on or about April 28, 2015. It is expected that the delivery of the Euro Notes will be made to investors in book-entry form through a common depository of Euroclear Bank S.A./N.V. and Clearstream Banking société anonyme, Luxembourg on or about April 28, 2015. The closings of the Dollar Notes and Euro Notes offerings, contemplated hereby are not contingent upon each other. See "Plan of Distribution."

*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners*

**Citigroup      HSBC      Goldman Sachs (Asia) L.L.C.      Bank of China      Deutsche Bank**

*Joint Lead Managers and Joint Bookrunners*

**BofA Merrill Lynch      CCB International Bank Ltd.      DBS International      ICBC International      ING J.P. Morgan      Mizuho Securities      Morgan Stanley      Société Générale Corporate & Investment Banking      Standard Chartered Bank**

Offering Memorandum dated April 28, 2015.

## NOTICE TO INVESTORS

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

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

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

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

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

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

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

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

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

---

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

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

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

---

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

---

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B (“RSA 421-B”) OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

## AVAILABLE INFORMATION

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

---

## CERTAIN DEFINED TERMS AND CONVENTIONS

In this offering memorandum, references to:

- “Company,” “Guarantor,” “we,” “our” and “us” are to China Petrochemical Corporation, a PRC state-owned enterprise (PRC company registration number 100000000001244(4-1)) (unless the context requires otherwise, including any subsidiaries of the Company), wholly owned by the SASAC;
- “CSG” are to coal seam gas, a form of natural gas extracted from coal beds;
- “€” are to Euro, the official currency of the eurozone, which consists of 19 of the 28 member states of the European Union;
- “Issuer” are to Sinopec Group Overseas Development (2015) Limited;
- “LNG” are to liquefied natural gas, a form of natural gas that has been converted to liquid form for ease of storage or transport;
- “NDRC” are to the National Development and Reform Commission of the PRC;
- “PRC” or “China” are to the People’s Republic of China, excluding, for the purpose of this offering memorandum only, the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
- “provinces” are to provinces and to provincial-level autonomous regions and municipalities in China which are directly under the supervision of the central PRC government;
- “RMB” or “Renminbi” are to the Renminbi, the official currency of the PRC;
- “SAFE” are to the State Administration of Foreign Exchange of the PRC;
- “SASAC” are to the State-owned Assets Supervision and Administration Commission of the State Council of China;
- “Sinopec Catalyst” are to Sinopec Catalyst Co. Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Catalyst);

- “Sinopec Corp.” are to China Petroleum & Chemical Corporation, a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Corp.);
- “Sinopec Engineering” are to Sinopec Engineering (Group) Co., Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Engineering);
- “Sinopec Group” are to the Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;
- “Sinopec Lubricant” are to Sinopec Lubricant Co. Ltd., a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Lubricant);
- “Sinopec Oilfield Service” are to Sinopec Oilfield Service Corporation, a PRC joint stock limited company (unless the context requires otherwise, including any subsidiary of Sinopec Oilfield Service); and
- “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America.

Solely for your convenience, this offering memorandum contains translations of certain Renminbi amounts and euro amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of RMB 6.2046 to US\$1.00, the exchange rate set forth in the H. 10 weekly statistical release (the “Noon Buying Rate”) of the Board of Governors of the Federal Reserve System of the United States (the “Federal Reserve Board”) on December 31, 2014, and the translation of euro amounts into U.S. dollar amounts has been made at the rate of US\$1.2101 to €1.00, the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2014. Further information on exchange rates is set forth in “Exchange Rates.” You should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. In many cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring us to rely on our own internally developed estimates regarding our industry, our position in the industry, our market and segment share and the market and segment shares of various industry participants based on experience, our own investigation of market conditions and our review of industry publications, including information made available to the public by our competitors. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Company or the Initial Purchasers or their respective directors and advisors, and neither the Issuer, the Company, nor the Initial Purchasers nor their respective directors and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of the Issuer, the Company and the terms of the offering and the Notes, including the merits and risks involved.

## TABLE OF CONTENTS

	Page
AVAILABLE INFORMATION . . . . .	iv
PRESENTATION OF INFORMATION . . . . .	1
FORWARD-LOOKING STATEMENTS . . . . .	3
ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES . . . . .	5
SUMMARY . . . . .	7
SUMMARY FINANCIAL INFORMATION . . . . .	14
THE OFFERING . . . . .	17
RISK FACTORS . . . . .	26
CAPITALIZATION AND INDEBTEDNESS . . . . .	47
DESCRIPTION OF THE ISSUER . . . . .	48
USE OF PROCEEDS . . . . .	50
OUR HISTORY AND CORPORATE STRUCTURE . . . . .	51
SELECTED FINANCIAL INFORMATION . . . . .	53
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS . . . . .	56
INDUSTRY OVERVIEW . . . . .	75
BUSINESS . . . . .	84
SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS . . . . .	114
MANAGEMENT . . . . .	122
DESCRIPTION OF THE DOLLAR NOTES AND GUARANTEES . . . . .	128
DESCRIPTION OF THE EURO NOTES AND GUARANTEES . . . . .	154
TRANSFER RESTRICTIONS . . . . .	178
EXCHANGE RATES . . . . .	181
TAXATION . . . . .	183
PLAN OF DISTRIBUTION . . . . .	189
RATINGS . . . . .	200
LEGAL MATTERS . . . . .	200
INDEPENDENT AUDITORS . . . . .	200
DESCRIPTION OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND U.S. GAAP . . . . .	201
GENERAL INFORMATION . . . . .	204

## PRESENTATION OF INFORMATION

### Financial Data

The Company's consolidated income statement and balance sheet data for the years ended and as of December 31, 2012, 2013 and 2014 have been extracted from the consolidated financial statements audited by Grant Thornton Certified Public Accountants and included elsewhere in this offering memorandum. Such financial statements are prepared in accordance with the requirements of Accounting Standards for Business Enterprises — Basic Standards, specific standards and relevant regulations issued by Ministry of Finance of the PRC on or after February 15, 2006, Application Guidance of Accounting Standards for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter ("PRC GAAP"). PRC GAAP differs in certain material respects from U.S. GAAP. For a discussion of certain differences between PRC GAAP and U.S. GAAP, see "Description of Certain Differences between PRC GAAP and U.S. GAAP."

### Rounding

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

### Oil and Gas Reserves

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

The Company's total estimated proved crude oil and natural gas reserves are located in the PRC as well as overseas. The Company's domestic crude oil and natural gas reserves accounted for more than 60% of the total reserves of the Company in each of 2012, 2013 and 2014. The Company manages its domestic reserves estimation as well as the reserves estimation for the Angola Block 18, the Kazakhstan-based Caspian Investment Resources Ltd., the Russia-based OAO Udmurt Oil Company, and the Colombia-based Mansarovar Energy Columbia Ltd. through Sinopec Corp., and its other overseas reserves estimation through Sinopec International Petroleum Exploration and Production Corporation ("SIPC"). Each of Sinopec Corp. and SIPC has a two-tier reserve

management system comprising (i) a reserve management committee at its headquarters level that oversees the overall reserves estimation process and reviews the reserves estimation; and (ii) reserve management offices at its production units or project companies that implement the reserves estimation process and reviews reserves estimation reports.

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

The Company believes that the methods it uses to estimate these reserves are consistent with the definitions and classifications in the Petroleum Resources Management System developed by internationally recognized organizations such as the Society of Petroleum Engineers, World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, which serve as guidelines for the oil and gas industry. Sinopec Corp.'s reserve data for 2012, 2013 and 2014 were prepared in accordance with the SEC's final rules on "Modernization of Oil and Gas Reporting," which became effective on January 1, 2010.

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

## FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

## ENFORCEABILITY OF FOREIGN JUDGMENTS AND CIVIL LIABILITIES

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

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

We have been advised by our PRC legal counsel, Haiwen & Partners, that there is uncertainty as to whether the courts of the PRC would:

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

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

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

## SUMMARY

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

### Overview

#### *The Company*

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of revenue, according to the “2014 Fortune Global 500.” We are the largest refined oil producer in the world in terms of crude oil throughput in 2014. We are the second largest oil and gas producer in China in terms of production volume in 2014. We are also the largest distributor of refined oil products in China measured by sales volume in 2014, and the number of our service stations ranked first in China and second in the world as of December 31, 2014. We ranked first in China in terms of production volume of major petrochemical products in 2014. We have been named in the “Fortune Global 500” since 2003 and ranked first among Chinese companies and third in the “2014 Fortune Global 500” in terms of revenue.

We were established in July 1998 on the basis of the former China Petrochemical Corporation. We are a state-authorized and invested entity and one of China’s key state-owned enterprises (“SOEs”) under the supervision of the SASAC. The SASAC has recognized us as one of the 23 “China’s Backbone SOEs.” Our telephone numbers are +86 (10) 59969290 and +86 (10) 59969298.

We conduct the following key businesses:

- ***Exploration and Production:*** We are China’s second largest oil and gas producer based on production volume in 2014. In recent years, we have successfully expanded our exploration and production segment by leveraging on domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. As of December 31, 2014, we had 6,270 million barrels of oil equivalent (“boe”) of proved reserves of crude oil and natural gas, including 4,590 million barrels of crude oil and 10,079 billion cubic feet (“bcf”) of natural gas. Our reserve replacement ratio of crude oil and natural gas amounted to approximately 126%, 149% and 89% in 2012, 2013 and 2014, respectively. In 2014, our production of crude oil and natural gas was 729 million boe. Our overseas exploration and production activities have expanded to 27 countries in six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and the Asia-Pacific. In 2014, our overseas crude oil and natural gas production was 299 million boe, accounting for 41.0% of our total crude oil and natural gas production. We are also exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide a more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, oil sands, LNG and other unconventional energies.
- ***Refining:*** We are the largest refined oil producer in the world in terms of crude oil throughput in 2014. In 2014, we processed 237 million tonnes of crude oil, representing approximately 47.1% of the total crude oil processed in China during the year. We operate 35 refineries in China, including 13 with refining capacity of 10 million tonnes or more per annum, which are located in China’s eastern and southeastern regions with more developed economies, higher population densities and larger numbers of oil product consumers. We have successfully expanded our refining operations overseas.

- Chemicals:** We are the largest producer of major petrochemical products in China and one of the largest in the world in terms of production volume in 2014. We believe we have greater economies of scale in most of our production facilities and more extensive distribution channels in China than our competitors. We produce a wide range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fiber, synthetic rubbers and synthetic ammonia and urea. Our chemical products are widely distributed throughout China and used in various industries, including textiles, agriculture, construction, shoes, housewares, packaging, electronic appliances and automobiles.
- Marketing and Distribution:** We are the largest distributor of refined oil products in China measured by sales volume in 2014. In 2014, our domestic market share with respect to the sales of refined oil products was 63.6% as to major refined oil products, which include gasoline, diesel and kerosene (including jet fuel). We sell most of our major refined oil products through retail service stations that operate under the “Sinopec” brand. Our strong retail network provides extensive geographic coverage of retail sales across China. As of December 31, 2014, we had 30,551 service stations, representing the largest oil products distribution network in China. The retail sales volume of gasoline and diesel through these service stations accounted for approximately 69.0% of our major refined oil products sales volume in China for 2014. As of December 31, 2014, we had more than 1,000 service stations in each of 13 provinces, which are all located in China’s eastern and southern regions. These 13 provinces accounted for 68% of China’s GDP, 64% of China’s population, 57% of China’s total length of expressway and 69% of China’s total length of highway in 2013. As of December 31, 2014, we had 10,807 kilometers of refined oil pipelines, and 16.2 million cubic meters of refined oil product storage capacity. In 2014, we sold 189 million tonnes of major refined oil products.
- Oil and Petrochemical Engineering Technical Services:** We believe we are one of the largest refining and chemical engineering technical service providers in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. Equipped with our in-house technologies and patents, we are a technological leader in refining and chemical engineering design both in China and overseas. In 2014, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US\$1.9 billion and US\$1.1 billion, respectively. In addition, our oil engineering technical service teams have provided services in 43 countries and regions in relation to more than 500 oil engineering technical service contracts. In 2014, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US\$3.0 billion and US\$2.5 billion, respectively.
- Others:** We also engage in international trade, research and development and other businesses, which are collectively referred to as our “Others” segment. We had a total crude oil trade volume of 264.3 million tonnes in 2014.

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

	Year Ended December 31,				
	2012	2013	2014		
	RMB	RMB	RMB	US\$	Percentage <sup>(2)</sup>
(in millions, except percentage data)					
<b>Total Operating Revenues<sup>(1)</sup>:</b>					
Exploration and Production . . .	318,601	304,601	296,527	47,791	5.9%
Refining . . . . .	1,282,825	1,311,269	1,273,095	205,186	25.2%
Chemicals . . . . .	459,666	486,646	473,229	76,271	9.4%
Marketing and Distribution . . .	1,471,882	1,502,414	1,476,605	237,986	29.2%
Oil & Petrochemical Engineering Technical Services . . . . .	135,347	143,286	151,794	24,465	3.0%
Others . . . . .	1,367,040	1,462,451	1,380,859	222,554	27.3%
Elimination of inter-segment . .	(2,204,752)	(2,265,592)	(2,162,175)	(348,480)	
<b>Total . . . . .</b>	<b><u>2,830,609</u></b>	<b><u>2,945,075</u></b>	<b><u>2,889,934</u></b>	<b><u>465,773</u></b>	

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

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

***Sinopec Corp.***

Sinopec Corp. is an integral and significant part of the Company. It was established as a joint stock company with limited liability under the Company Law of the PRC on February 25, 2000 as part of a restructuring in which the Company transferred to Sinopec Corp. the majority of its production operations. Sinopec Corp. mainly conducts domestic oil and gas exploration, development and production; crude oil refining; the marketing and distribution of refined oil products; and the production and sales of petrochemical products. Sinopec Corp. is the first company in China to have obtained a listing of its shares on four stock exchanges. Sinopec Corp.'s H shares and American Depositary Shares representing H shares were simultaneously listed on the SEHK (stock code: 0386), the New York Stock Exchange (stock code: SNP) and the London Stock Exchange (stock code: SNP) on October 18, 2000; and its A shares were listed on the Shanghai Stock Exchange (stock code: 600028) on August 8, 2001. Sinopec Corp. was awarded "Best Managed Company" by FinanceAsia in 2011, "Best Managed Company in China" by Euromoney in 2012, "Global Compact Best China Practice Award" by UN Global Compact Network in 2012, and "Crisis Management and CRS Gold Awards" by Asia-Pacific SABRE Awards in 2013, "Shale Oil and Gas International Pioneer" by International Gas Union and American Gas Association in 2014, as well as "Global Competitive Brands — Top 10 from China" by International Data Group for five consecutive years. As of December 31, 2014, the Company directly and indirectly owned 72.94% of the share capital of Sinopec Corp. Sinopec Corp. accounted for approximately 56.0% of the Company's total assets as of December 31, 2014 and 89.6% of the Company's revenue for the year ended December 31, 2014, according to the audited consolidated financial statements of Sinopec Corp. and of the Company prepared in accordance with PRC GAAP. For more information of Sinopec Corp., see Sinopec Corp.'s periodic filings with the SEC on [www.sec.gov](http://www.sec.gov). Sinopec Corp.'s periodic filings do not constitute part of this offering memorandum.

### ***Sinopec Engineering***

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

### ***Sinopec Oilfield Service***

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

### ***Sinopec Lubricant***

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

### ***Sinopec Catalyst***

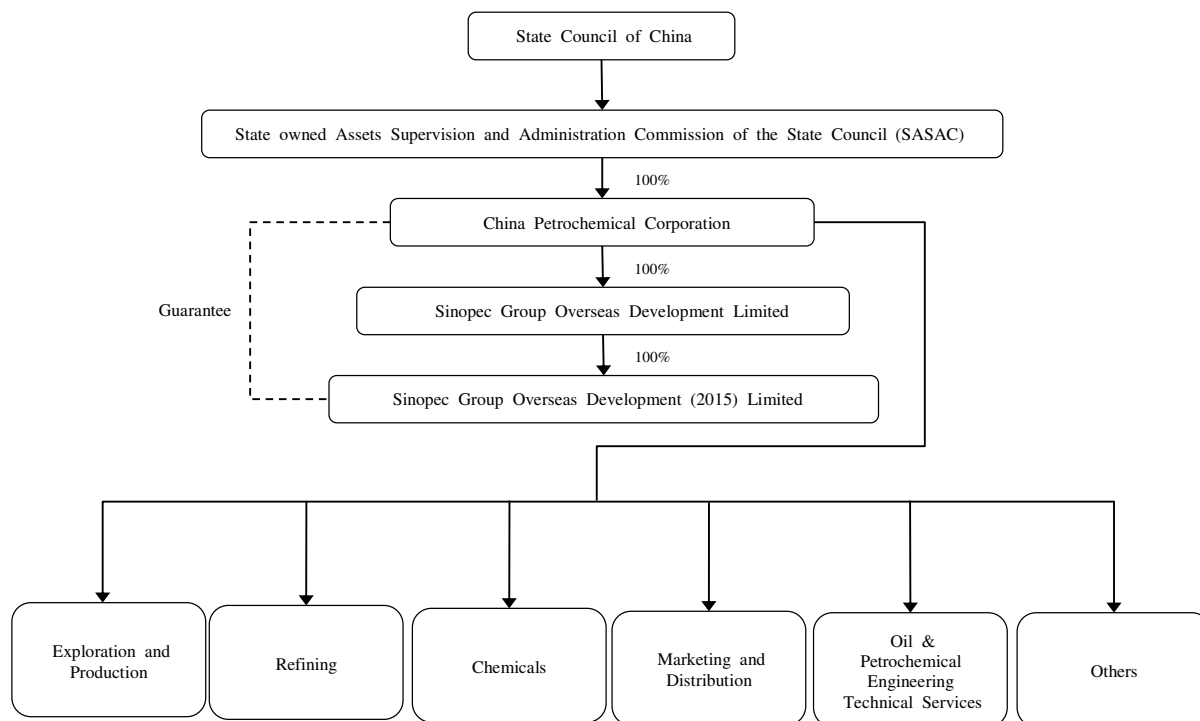
Sinopec Catalyst is a subsidiary of the Company and an investment platform for the production, marketing and management of catalysts. It is one of the largest producers, suppliers and services providers of oil refining and chemical catalysts in the world.

### ***The Issuer***

The Issuer was incorporated with limited liability on April 2, 2015 in the British Virgin Islands under the BVI Business Companies Act 2004. It is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands. The Issuer has no material assets and will conduct no business except in connection with the issuance of the Notes and the advance of the net proceeds from their issuance to a company controlled by us that is located outside the PRC. The registered address of the Issuer is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands. The telephone numbers of the Issuer are +86 (10) 59969290 and +86 (10) 59969298.

## Corporate Structure

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



## Competitive Strengths

- We are a global leader and the largest integrated petroleum and petrochemical company in China with strong government support.
- We operate effectively as an integrated petroleum and petrochemical company with a leading position in every segment along the oil and gas value chain.
- Our market-leading petroleum and petrochemical downstream businesses in China offer stable cash flow generation and growth potential.
- Our high quality exploration and production business improves our overall profitability and achieves better balance among our complementary portfolios of assets.
- We have prudent financial policies and an effective risk management system which contribute to our solid financial results.
- We have an experienced management team with a strong corporate governance system and a high performance corporate culture.

## **Strategy**

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

- Continue to increase our oil and gas reserve base.
- Continue to reinforce our advantages, strengthen our dominant position in the downstream businesses and enhance profitability.
- Reinforce the advantages of our integrated business model.
- Increase the scale and scope of our international operations and build a global Sinopec brand.
- Differentiate on product, market and service to expand our market coverage and improve profitability.
- Emphasize low-carbon consumption and sustainable development.

## **Recent Developments**

In April 2014, we and China Huadian Corporation entered into an agreement to purchase a 15% equity interest in the North Montney Joint Venture and the Pacific NorthWest LNG project from Petroliaam Nasional Berhad, a Malaysia's government-owned oil and gas company ("PETRONAS"). The acquisition was completed in July 2014. After the acquisition, we own a 10% equity interest in the project, and PETRONAS and China Huadian Corporation own 62% and 5% equity interests, respectively, in the project. The Pacific NorthWest LNG project, located on Canada's west coast near Prince Rupert, British Columbia, is a two-train, around 12 million tonnes per year liquefaction complex that is expected to come online by 2020. Based on our equity interest in the project, we have agreed to offtake around 1.2 million tonnes of LNG per year from the project for a 20-year term, and through a heads of agreement with PETRONAS, we have agreed to offtake another 3.0 million tonnes of LNG per year from the project for a 20-year term.

On February 19, 2014, the board of directors of Sinopec Corp. unanimously approved a proposal to restructure Sinopec Corp.'s marketing and distribution business segment by selling up to 30% of the segment's ownership to social and private investors. The proposed restructuring reflects a part of the PRC government-driven reforms to introduce more private investment into state-owned enterprises. Valuation of the marketing and distribution business segment was determined based on its audited financial statements and other factors. By April 2014, Sinopec Corp. had injected its assets in the marketing and distribution segment into Sinopec Marketing Co., Ltd. ("Sinopec Marketing"), a wholly-owned subsidiary of Sinopec Corp. On September 12, 2014, Sinopec Marketing entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors agreed to subscribe for certain equity interest in Sinopec Marketing. As of March 6, 2015, the 25 investors had made an aggregate capital contribution of RMB105.04 billion, representing 29.58% of the equity interest in Sinopec Marketing. Sinopec Corp. will comply with appropriate approval and disclosure requirements under applicable law and stock exchange listing rules with respect to any development of the proposed restructuring.

In December 2014, pursuant to a series of agreements entered into between the Company, Sinopec Corp. and Sinopec Yizheng Chemical Fiber (“Yizheng”), Yizheng transferred all of its chemical fiber business to Sinopec Corp., and the Company injected all of its petroleum engineering business into Yizheng. In March 2015, Yizheng changed its name to Sinopec Oilfield Service. On March 3, 2015, Sinopec Oilfield Service raised approximately RMB 6 billion in an issuance of new A-shares to non-public investors.

On March 22, 2015, Sinopec Corp. published a profit warning, and announced that the sharp decline of crude oil prices since the fourth quarter of 2014 had led to a significant decrease in the net profit attributable to its shareholders for the first quarter of 2015 which was estimated to be in the vicinity of the breakeven point. On April 7, 2015, Sinopec Oilfield Service published a profit warning, and announced that it expected to record a loss for the first quarter of 2015. The warning estimated the net loss attributable to Sinopec Oilfield Service’s shareholders to be approximately RMB370 million, as international and domestic oil companies started to reduce capital expenditures for oilfield exploration as a result of low crude oil prices.

## SUMMARY FINANCIAL INFORMATION

The following summary historical consolidated statement of comprehensive income data for the years ended December 31, 2012, 2013 and 2014 and summary historical consolidated balance sheet data as of December 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The audited consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

Other than disclosed herein, there has been no material adverse change in our prospects and the prospects of the Guarantor since December 31, 2014 and there has been no significant change in our financial or trading position or the financial or trading position of the Issuer since December 31, 2014.

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

### Consolidated Income Statement Data of the Company

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
<b>Operating Revenues</b> . . . . .	2,830,609	2,945,075	2,889,934	465,773
Operating costs . . . . .	2,365,265	2,469,599	2,439,817	393,227
Business taxes and surcharges . . . . .	205,828	207,822	205,829	33,174
Selling and distribution expenses . . . . .	42,645	46,740	49,245	7,937
General and administrative expenses . . . . .	76,899	78,171	77,303	12,459
Exploration expenses . . . . .	20,643	16,797	21,370	3,444
Financial expenses . . . . .	15,953	13,398	19,111	3,080
Assets impairment losses . . . . .	7,847	4,336	10,035	1,617
<b>Operating Expenses</b> . . . . .	2,735,080	2,836,863	2,822,710	454,938
Gains (losses) from changes in fair value . . . . .	207	2,165	(4,151)	(669)
Investment income . . . . .	6,212	3,882	12,028	1,939
<b>Operating Profit</b> . . . . .	101,948	114,259	75,101	12,105
Non-operating income . . . . .	6,573	5,536	7,726	1,245
Non-operating expenses . . . . .	3,859	4,980	3,974	640
<b>Profit Before Income Tax</b> . . . . .	104,662	114,815	78,853	12,710
Income tax . . . . .	34,871	37,147	33,704	5,432
<b>Net Profit</b> . . . . .	69,791	77,668	45,149	7,278
Net profit attributable to parent company . . . . .	51,869	54,918	31,899	5,142
Net profit attributable to minority interests . . . . .	17,922	22,750	13,250	2,136

**Consolidated Balance Sheet Data of the Company**

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
				(in millions)
Total current assets . . . . .	481,681	514,509	498,571	80,355
Total non-current assets . . . . .	1,466,396	1,622,414	1,729,795	278,792
Total assets . . . . .	1,948,077	2,136,923	2,228,366	359,147
Total current liabilities . . . . .	658,185	737,919	816,870	131,656
Total non-current liabilities . . . . .	498,121	495,974	460,837	74,273
Total liabilities . . . . .	1,156,306	1,233,893	1,277,707	205,929
Total owners' equity attributable to parent company . . . . .	635,490	706,176	735,567	118,552
Minority Interest . . . . .	156,281	196,854	215,092	34,666
Total owners' equity . . . . .	791,771	903,030	950,659	153,218
Total liabilities and owners' equity . . . . .	1,948,077	2,136,923	2,228,366	359,147

**Consolidated Cash Flows Data of the Company**

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
				(in millions)
Net cash flows generated from (used in) operating activities . . . . .	170,363	151,811	175,349	28,261
Net cash flows generated from (used in) investing activities . . . . .	(280,064)	(235,775)	(208,842)	(33,659)
Net cash flows generated from (used in) financing activities . . . . .	74,769	95,668	16,430	2,648
Effect of foreign exchange rate changes . . . . .	153	(1,226)	(786)	(127)
Net increase (decrease) in cash and cash equivalents . . . . .	(34,779)	10,478	(17,849)	(2,877)
Cash and cash equivalents at the beginning of the year . . . . .	77,430	42,651	53,129	8,563
Cash and cash equivalents at the end of the year . . . . .	<u>42,651</u>	<u>53,129</u>	<u>35,280</u>	<u>5,686</u>

## Other Financial Data of the Company

	As of and for the Year Ended December 31,		
	2012	2013	2014
EBITDA <sup>(1)</sup> (RMB in millions) . . . . .	231,831	243,182	226,662
EBITDA <sup>(1)</sup> (US\$ in millions) . . . . .	37,211	40,171	36,531
EBITDA margin <sup>(2)</sup> . . . . .	8.2%	8.3%	7.8%
Total debt <sup>(3)</sup> (RMB in millions) . . . . .	525,975	591,088	615,632
Net debt <sup>(4)</sup> (RMB in millions) . . . . .	483,402	538,091	580,413
Total debt/EBITDA . . . . .	2.27	2.43	2.72
Net debt/EBITDA . . . . .	2.09	2.21	2.56
EBITDA/Interest <sup>(5)</sup> . . . . .	12.68	12.55	11.21
Total debt/Total capitalization <sup>(6)</sup> . . . . .	39.92%	39.57%	39.31%
Cash/Short-term borrowings . . . . .	29.12%	23.42%	12.64%

- (1) EBITDA for any period is calculated as operating profit adjusted for foreign exchange gains (losses), investment income and gains (losses) from changes in fair value, plus assets impairment losses, interest expenses and depreciation, depletion and amortization. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) EBITDA margin is calculated as EBITDA divided by operating revenues.
- (3) Total debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to our subsidiaries.
- (4) Net debt is calculated as total debt minus cash.
- (5) Interest is calculated as interest expenses plus capitalized interests.
- (6) Total capitalization equals total debt plus total owners' equity.

## THE OFFERING

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

Issuer . . . . .	Sinopec Group Overseas Development (2015) Limited, a company incorporated with limited liability on April 2, 2015 in the British Virgin Islands under the Business Companies Act (BVI Company No. 1868730).
Guarantor/The Company . . . . .	China Petrochemical Corporation, a state-owned enterprise incorporated in the PRC.
Notes Offered . . . . .	US\$2,500,000,000 aggregate principal amount of 2.50% senior notes due 2020 (the “2020 Notes”). US\$1,500,000,000 aggregate principal amount of 3.25% senior notes due 2025 (the “2025 Notes”). US\$800,000,000 aggregate principal amount of 4.10% senior notes due 2045 (the “2045 Notes” and together with the 2020 Notes and the 2025 Notes, the “Dollar Notes”). €850,000,000 aggregate principal amount of 0.50% senior notes due 2018 (the “2018 Euro Notes”). €650,000,000 aggregate principal amount of 1.00% senior notes due 2022 (the “2022 Euro Notes” and together with the 2018 Euro Notes, the “Euro Notes,” and together with the Dollar Notes, the “Notes”).
Concurrent Offerings . . . . .	<p>The offering of the Dollar Notes and the offering of the Euro Notes contemplated hereby will be made pursuant to separate Purchase Agreements involving different groups of Initial Purchasers (as described below under “Plan of Distribution”). The separate Dollar Notes and Euro Notes offerings are not contingent upon each another.</p> <p>Accordingly, although this offering memorandum includes discussion of both offerings, it is possible that one of the offerings will proceed to completion while the other offering will not do so.</p> <p>Investors should be aware that the offerings are not contingent upon each other and that the information in the table below under “Capitalization” assumes that both the Dollar Notes and Euro Notes offerings are completed substantially concurrently (the Dollar Notes initially into DTC and the Euro Notes initially into Euroclear and Clearstream, Luxembourg) but there can be no assurance that the concurrent offerings will occur in the manner and timing contemplated herein or at all.</p>

Guarantees . . . . .	Payment of principal of, interest and all other amounts payable on, the Notes is irrevocably and unconditionally guaranteed by the Guarantor.
Issue Price . . . . .	2020 Notes: 99.576% of principal amount, plus accrued interest from April 28, 2015, to the issue date. 2025 Notes: 99.022% of principal amount, plus accrued interest from April 28, 2015, to the issue date. 2045 Notes: 100.00% of principal amount, plus accrued interest from April 28, 2015, to the issue date. 2018 Euro Notes: 99.716% of principal amount, plus accrued interest from April 28, 2015, to the issue date. 2022 Euro Notes: 99.243% of principal amount, plus accrued interest from April 28, 2015, to the issue date.
Maturity Dates . . . . .	2020 Notes: April 28, 2020 2025 Notes: April 28, 2025 2045 Notes: April 28, 2045 2018 Euro Notes: April 27, 2018 2022 Euro Notes: April 28, 2022
Interest Payment Dates. . . . .	2020 Notes: April 28 and October 28, commencing October 28, 2015 2025 Notes: April 28 and October 28, commencing October 28, 2015 2045 Notes: April 28 and October 28, commencing October 28, 2015 2018 Euro Notes: April 27, commencing April 27, 2016 2022 Euro Notes: April 28, commencing April 28, 2016
Interest . . . . .	The 2020 Notes will bear interest from April 28, 2015 at the rate of 2.50% per annum, payable semi-annually in arrears from October 28, 2015. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.  The 2025 Notes will bear interest from April 28, 2015 at the rate of 3.25% per annum, payable semi-annually in arrears from October 28, 2015. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.  The 2045 Notes will bear interest from April 28, 2015 at the rate of 4.10% per annum, payable semi-annually in arrears from October 28, 2015. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months.

The 2018 Euro Notes will bear interest from April 28, 2015 at the rate of 0.50% per annum, payable annually in arrears from April 27, 2016. If interest shall be calculated for a period of less than a full year, interest shall be calculated on the basis of the actual number of days elapsed divided by 365 or (in the case of a leap year) 366.

The 2022 Euro Notes will bear interest from April 28, 2015 at the rate of 1.00% per annum, payable annually in arrears from April 28, 2016. If interest shall be calculated for a period of less than a full year, interest shall be calculated on the basis of the actual number of days elapsed divided by 365 or (in the case of a leap year) 366.

Further Issues .....

The 2020 Notes will be issued in an initial aggregate principal amount of US\$2,500,000,000, the 2025 Notes will be issued in an initial aggregate principal amount of US\$1,500,000,000, and the 2045 Notes will be issued in an initial aggregate principal amount of US\$800,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Dollar Notes, create and issue, pursuant to the Indentures, additional notes of a series, having the same terms and conditions under each respective Indenture as the previously outstanding Dollar Notes of the relevant series in all respects, except for issue date, issue price and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Dollar Notes of the relevant series; *provided, however*, that such additional notes may have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Dollar Notes of the relevant series only if (i) such additional notes are fungible with such Dollar Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “Description of the Dollar Notes and Guarantees — Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same CUSIP, ISIN, Common Code or other identifying number.

The 2018 Euro Notes will be issued in an initial aggregate principal amount of €850,000,000, and the 2022 Euro Notes will be issued in an initial aggregate principal amount of €650,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Euro Notes, create and issue pursuant to the Indentures, additional notes of a series having the same terms and conditions under each respective Indenture as the previously outstanding Euro Notes of the relevant series in all respects, except for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Euro Notes of the relevant series; *provided, however*, that such additional notes may have the same ISIN, Common Code or other identifying number as the outstanding Euro Notes of the relevant series only if (i) such additional notes are fungible with such Euro Notes of the relevant series for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “Description of the Euro Notes and Guarantees — Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same ISIN, Common Code or other identifying number.

Ranking .....

The Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer ranking *pari passu*, without any preference or priority of payment among themselves, with all other unsecured and unsubordinated indebtedness of the Issuer (except obligations preferred by applicable law). The Guarantees will constitute the Guarantor’s direct, unsecured and unsubordinated obligations ranking *pari passu* with all our other unsecured and unsubordinated indebtedness (except obligations preferred by applicable law).

Certain Covenants . . . . .	<p>The Guarantor has covenanted in the Indentures, with certain exceptions, not to incur certain liens or consolidate, merge or sell its assets substantially as an entirety unless certain conditions are satisfied. The Notes and the Indentures do not otherwise restrict or limit the Guarantor’s ability to incur additional indebtedness by itself or its subsidiaries or its ability to enter into transactions with, or to pay dividends or make other payments to, affiliates. See “Description of the Dollar Notes and Guarantees — Certain Covenants — Limitation on Liens”, “Description of the Dollar Notes and Guarantees — Consolidation, Merger and Sale of Assets”, “Description of the Euro Notes and Guarantees — Certain Covenants — Limitation on Liens” and “Description of the Euro Notes and Guarantees — Certain Covenants — Consolidation, Merger and Sale of Assets.”</p>
Additional Amounts . . . . .	<p>In the event that withholding taxes are imposed by a Relevant Taxing Jurisdiction in respect of payments pursuant to the Notes or the Guarantees, the Guarantor or the Issuer, as the case may be, will, subject to certain exceptions, pay such Additional Amounts as will result, after deduction or withholding of such taxes, in receipt by each holder of such amounts as would have been received by such holder in respect of the Notes or Guarantees, as applicable, had no deduction or withholding been required. See “Description of the Dollar Notes and Guarantees — Additional Amounts” and “Description of the Euro Notes and Guarantees — Additional Amounts.”</p>
Optional Redemption . . . . .	<p>The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem any of the Dollar Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Dollar Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the applicable Dollar Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Dollar Notes to be redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points in the case of the 2020 Notes, 25 basis points in the case of the 2025 Notes and 25 basis points in the case of the 2045 Notes, in each case, plus accrued and unpaid interest on the applicable Dollar Notes to be redeemed, if any, to the date of redemption. See “Description of the Dollar Notes and Guarantees — Redemption — Optional Redemption.”</p>

The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem any of the Euro Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Euro Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the applicable Euro Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Euro Notes to be redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on an annual basis at the Comparable Government Bond Rate plus 15 basis points in the case of 2018 Notes and 20 basis points in the case of 2022 Notes, in each case, plus accrued and unpaid interest on the applicable Euro Notes to be redeemed, if any, to the date of redemption. See “Description of the Euro Notes and Guarantees — Redemption — Optional Redemption.”

Optional Tax Redemption . . . . .

Each series of the Notes may be redeemed at the option of the Issuer, in whole but not in part, at the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, in the event the Guarantor or the Issuer becomes obligated to pay Additional Amounts in respect of such series of the Notes or the Guarantees as a result of certain changes in tax laws; except for Additional Amounts payable in respect of a withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer or a successor person being, or being considered, a PRC tax resident under the PRC Enterprise Income Tax Law. See “Description of the Dollar Notes and Guarantees — Redemption — Optional Tax Redemption” and “Description of the Euro Notes and Guarantees — Redemption — Optional Tax Redemption.”

Repurchase upon a Change of Control Triggering Event . . . . .

Upon the occurrence of a Change of Control Triggering Event, the Issuer will be required to make an offer to repurchase all of the Notes at a price in cash equal to 101% of the principal amount of the Notes repurchase, plus accrued and unpaid interest on the principal amount of Notes being repurchased to but excluding the date of repurchase. See “Description of the Dollar Notes and Guarantees — Repurchase upon a Change of Control Triggering Event” and “Description of the Euro Notes and Guarantees — Repurchase upon a Change of Control Triggering Event.”

Repurchase upon Failure to Complete Registration of the Guarantees . . . . .	If administrative registration with respect to the Notes is not completed by 120 Beijing Business Days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Notes at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to but excluding the date of repurchase. See “Description of the Dollar Notes and Guarantees — Repurchase upon Occurrence of Certain Events” and “Description of the Euro Notes and Guarantees — Repurchase upon Occurrence of Certain Events.”
Transfer Restrictions . . . . .	The Notes have not been registered under the Securities Act, any state securities laws in the United States or the securities laws of any other jurisdiction. Unless they are registered, the Notes may not be sold except pursuant to an exemption from or in a transaction not subject to the registration requirements of the Securities Act, applicable state securities laws or the applicable securities laws of any other jurisdiction. See “Transfer Restrictions.”
Use of Proceeds . . . . .	The net proceeds we expect to receive from this offering, after deducting underwriting commissions and certain estimated offering expenses, will be approximately US\$4,766 million and €1,490 million. We intend to use the net proceeds of this offering to refinance our existing indebtedness and for the general corporate purposes of our overseas businesses. See “Use of Proceeds.”
Governing Law . . . . .	The Notes, the Guarantees and the Indentures will be governed by, and construed in accordance with, the laws of the State of New York.
Denomination, Form and Registration . . . . .	The Dollar Notes will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Dollar Notes offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of The Depository Trust Company (“DTC”). The Dollar Notes offered to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more global notes in fully registered form without interest coupons deposited with the custodian for, and registered in the name of, Cede & Co., as nominee of DTC for the respective accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”).

DTC will credit the account of each of its participants, including Euroclear and Clearstream, Luxembourg, with the principal amount of Dollar Notes being purchased by or through such participant. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg.

The Euro Notes will be issued in registered form in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

The Euro Notes offered in the United States to Qualified Institutional Buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons, which will be registered in the name of a nominee of a bank depository common to both Euroclear and Clearstream, Luxembourg. The Euro Notes offered to non-U.S. persons outside the United States in reliance on Regulation S will be represented by one or more global notes in fully registered form without interest coupons, which will be registered in the name of a nominee of a bank depository common to both Euroclear and Clearstream, Luxembourg.

Euroclear and Clearstream, Luxembourg will credit the account of each of its participants, with the principal amount of Euro Notes being purchased by or through such participant. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg.

Ratings .....	The Notes are expected to be rated “Aa3” by Moody’s and “AA-” by S&P. Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agencies.
Risk Factors .....	See “Risk Factors” and the other information in this offering memorandum for a discussion of factors that should be carefully considered before deciding to invest in the Notes.
Listing .....	The Issuer has received an eligibility letter from the SEHK for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors only as described in this offering memorandum. Application has been made to the ISE for the approval of this document as Listing Particulars. Application has been made to the ISE for the Euro Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange-regulated market of the ISE. However, the Issuer cannot assure you that the application to such stock exchange will be approved. The settlement of the Notes is not conditional on obtaining such listing. The Issuer may elect to apply for a delisting of the Notes from any stock exchange or markets if the listing requirements are unduly burdensome.
Trustee .....	Citicorp International Limited.
Paying Agent, Transfer Agent and Registrar .....	Citibank N.A., London Branch.

## RISK FACTORS

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

### **Risks Relating to Our Business Operation**

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

We consume a large amount of crude oil to produce our refined oil products and chemical products. A decline in crude oil prices will reduce our crude oil revenues derived from external customers, and may cause us to incur impairment to our investments and assets. A sharp decline in crude oil and gas prices may impact our cash flow, profit, and our ability to maintain our long-term investment projects, and a prolonged period of low oil and gas prices may impact the base of our proved oil or natural gas reserves. An increase in crude oil prices may, however, increase the production costs of refined oil products, which we may not be able to pass on to customers in a timely manner or at all due in part to the control of retail prices by the PRC government. A decline in refined oil products prices will reduce our revenue derived from refining operations. An increase in the refined oil products prices, however, will increase the production costs of chemical products which use refined oil products as raw materials. We do not have, and will not have, control over the factors affecting international prices for crude oil and refined oil products. While we try to adjust the sale price of our products to track international crude oil price fluctuations, our ability to pass on the increased cost resulting from crude oil price fluctuations to our customers may be limited, and is dependent on international and domestic market conditions as well as the PRC government's price controls over refined oil products. Due to the volatile prices on the international oil market in recent years, the NDRC promulgated a price-setting mechanism for domestic refined oil products so that domestic refined oil products prices are in line with those on the international markets. Although the current price-setting mechanism for refined oil products in China allows the PRC government to adjust prices in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period, the PRC government still retains discretion as to whether or when to adjust the refined oil products prices. The PRC government generally exercises certain price controls over refined oil products once international crude oil prices experience sustained rises or become significantly volatile. For example, effective January 13, 2015, the NDRC lowered the retail prices of gasoline and diesel by RMB 180 per tonne and RMB 230 per tonne, respectively. Effective February 10, 2015, the NDRC raised the retail prices of gasoline and diesel by RMB 290 per tonne and RMB 280 per tonne, respectively. Effective April 10, 2015, the NDRC raised the retail prices of gasoline and diesel by RMB 120 per tonne and RMB 115 per tonne, respectively. As a result, our results of operations and financial condition may be materially and adversely affected by the fluctuation of crude oil, natural gas and refined oil product prices.

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

Our ability to achieve our growth objectives is dependent in part on our level of success in discovering or acquiring additional oil and natural gas reserves and further exploring our current reserve base. Our exploration and development activities for additional reserves also expose us to

inherent risks associated with drilling, including the risk that no proved oil or natural gas reserves might be discovered. Exploring for, developing and acquiring reserves is highly risky and capital intensive. Without reserve additions through further exploration and development or acquisition activities, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

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

We purchase a significant portion of our crude oil and other feedstock requirements from outside suppliers located in different countries and areas in the world. In 2014, approximately 82% of the crude oil required for our refinery business was sourced from international suppliers, some of which are from countries or regions, or are entities that are the subject of various United States economic sanctions regimes, such as Iran and Sudan. In addition, our development requires us to source an increasing amount of crude oil from outside suppliers. We are subject to the political, geographical, economic, regulatory and legal risks associated with certain of these countries and areas, including the following:

- changes in international political and economic conditions, as well as social conditions;
- military hostilities, war, political unrest or acts of terrorism;
- challenges caused by distance, language, local business customs and cultural differences;
- difficulty in obtaining licenses, permits or other regulatory approvals from local authorities and in enforcing the oil and gas segment's rights under contracts;
- with respect to those countries that are members of OPEC, the lowering of petroleum production volume pursuant to OPEC policy;
- changes in laws, regulations or government policies, or in the interpretation or enforcement of laws, regulations and government policies, including changes driven by resource nationalism, or uncertainties thereof;
- measures which may be introduced to control inflation or changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad or reduction in tariff protection and other import restrictions;
- natural disasters and epidemics, outbreaks or pollution; and
- changes in the usage and costs of state-controlled transportation services.

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

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

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

The reliability of reserves estimates depends on:

- the quality and quantity of technical and economic data;
- the prevailing oil and gas prices applicable to our production;
- the production performance of the reservoirs; and
- extensive engineering judgments.

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

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

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

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

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

We have been actively pursuing business opportunities outside China to supplement our domestic resources. However, there can be no assurance that we can successfully locate sufficient alternative sources of crude oil supply or at all due to the complexity of the international political, economic and other conditions. If we fail to obtain sufficient alternative sources of crude oil supply, our results of operations and financial condition may be adversely affected.

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

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

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

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

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

- remediation of environmental contamination and adverse impacts caused by our activities or accidents at various facilities owned or previously owned by us and at third-party sites where our products or waste have been handled or disposed of;
- compensation of persons and/or entities claiming damages as a result of our activities or accidents; and
- costs in connection with the decommissioning of drilling platforms and other facilities.

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

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

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

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

- modify operations;
- install pollution control equipment;
- implement additional safety measures;
- perform site cleanups;
- curtail or cease certain operations;
- temporarily shut down our facilities;
- meet technical requirements;
- increase monitoring, training, record-keeping and contingency planning; and
- establish credentials in order to be permitted to commence drilling.

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

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

As international society has reached consensus on the importance and urgency of addressing climate change, the oil and gas industry has become increasingly concerned about the relationship between global climate change and the demand for fossil fuels. A number of international, national and regional measures to limit greenhouse gas emissions have been enacted. The implementation of such measures in a number of countries and other potential legislation limiting emissions could affect the global demand for fossil fuels. If China or other countries in which we operate or plan to operate enact legislation designed to limit or reduce greenhouse gas emissions, such legislation and the associated implementing rules could cause reduced demand for our products and cause us to make substantial capital expenditures in order to comply with these laws and rules. For example, on December 10, 2014, the NDRC promulgated the *Provisional Measures on the Management of Carbon Emission Trading*, with the aim of fully implementing a nation-wide greenhouse gas emissions trading market from 2016. As a result, a majority of our subsidiaries operating in the PRC may be subject to mandatory emissions trading and may be required to obtain emission quotas, which could adversely affect our business and results of operations.

***Our overseas exploration, development and production projects are exposed to political, economic, regulatory and legal risks.***

We are subject to various political, legal and regulatory environments in foreign countries and regions where we operate, some of which are known to be unstable and differ in certain significant respects from those prevailing in developed countries. Some countries and regions where we have made significant investments are among the most undeveloped countries as defined by the United Nations, and their laws, regulations and policies are subject to changes due to political and economic uncertainties.

In addition, the results of our operations may be adversely affected by a number of factors in the countries and regions in which we operate or have interests, including the same risks as those associated with certain countries and regions of our third-party suppliers, as set out in the risk factor “— We rely heavily on outside suppliers for crude oil and other raw materials, and we may experience disruption of our ability to obtain crude oil and other raw materials.”

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

Our development projects and production activities may be curtailed, delayed or cancelled for many reasons, including equipment shortages or failures, natural hazards, unexpected drilling conditions or reservoir characteristics, pressure or irregularities in geological formations, accidents, mechanical and technical difficulties and industrial action. These projects and activities, which include projects focused on unconventional oil and gas exploration and development, will also often require the use of new and advanced technologies, which may be expensive to develop,

purchase and implement, and may not function as expected. There is a risk that development projects that we undertake may not yield adequate returns. In addition, our development projects and production activities, particularly those in remote areas, could become less profitable, or unprofitable, if we experience a prolonged period of low oil or gas prices or cost overruns.

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

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

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

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

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

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

We may from time to time subcontract portions of our engineering and construction projects to independent third-party subcontractors. In addition, if we need extra manpower due to a shortage of labor, or in order to accelerate the progress of project work, we may need to subcontract labor services internally, hire short-term temporary workers, or engage independent third-party subcontractors. We also rely on third-party manufacturers or other service providers for production and supply of certain parts, components and services in connection with our resources development, equipment manufacturing and property development operations. Outsourcing to subcontractors and other third parties supplements our capacity, reduces our need to employ a large workforce, including skilled and semi-skilled labor in different specialized areas, and increases our flexibility and cost effectiveness in carrying out contracts. We have established a system with respect to the selection and control of subcontractors in our engineering and construction business, which involves, among others, maintaining a regularly updated list of

qualified subcontractors and entering into agreements with them to set forth each party's rights and obligations. In our other businesses, we also endeavor to source products and services from third-party manufacturers and service providers whom we believe are able to meet our quality, delivery schedule and other requirements. Nevertheless, we may not be able to monitor the performance of these subcontractors and other third parties as directly and efficiently as our own staff. In addition, qualified subcontractors and other third parties may not always be readily available when our needs for outsourcing arise. If we are unable to hire qualified subcontractors and other third parties, our ability to complete projects or other contracts could be impaired. If the amounts that we are required to pay to subcontractors and other third parties exceed what we have estimated, especially in the case of customer contracts with a pre-agreed price, we may suffer losses on those contracts. Outsourcing also exposes us to risks associated with non-performance, delayed performance or substandard performance by subcontractors or other third parties. As a result, we may experience a deterioration in the quality or late delivery of our construction projects, incur additional costs due to delays or higher prices in sourcing the services, equipment or supplies, or be subject to liability under the relevant contract for the non-performance, delayed performance or substandard performance of our subcontractors or other third parties. Such events could have a material and adverse impact upon our profitability, financial performance and reputation, and may result in litigation or damage claims against us.

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

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

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

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

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

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

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

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

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

- ability to generate sufficient cash flows from operations to finance our expenditures, investments and other requirements, which are affected by changes in crude oil and natural gas prices and other factors;
- availability and terms of external financing;
- mix of exploration and development activities conducted on an independent basis and those conducted jointly with other partners;
- extent to which our ability to influence or adjust plans for exploration and development related expenditures is limited under joint operating agreements for those projects in which we have partners;
- government approvals required for exploration and development-related expenditures and investments in jurisdictions in which we conduct business; and
- economic, political and other conditions in jurisdictions in which we conduct business.

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

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

We maintain a certain level of indebtedness to finance our operations. We recorded net current liabilities of RMB 176,504 million, RMB 223,410 million and RMB 318,299 million as of December 31, 2012, 2013 and 2014, respectively. We cannot assure you that we will not have net current liabilities position in the future. Our indebtedness could have an adverse effect on us, for example, by:

- increasing our vulnerability to adverse general economic or industry conditions;
- limiting our flexibility to plan for, or react to, changes in our business or the industry in which we operate;
- limiting our ability to raise additional debt or equity capital in the future or increasing the cost of such funding;
- restricting us from making strategic acquisitions or taking advantage of business opportunities; and
- making it more difficult for us to satisfy our obligations with respect to our debt.

Our indebtedness will require us to maintain an adequate level of cash flow to satisfy our debt obligations as they become due. Our primary sources of funding include cash inflow from operation activities and short-term and long-term borrowings. Cash inflow from our operating activities was RMB 3,256 billion in 2014. As of December 31, 2014, the total lines of credit available to us were RMB1,635 billion, 62.5% of which was unused. However, there can be no assurance that we will always be able to generate enough cash through operating activities or financing activities to repay or to refinance our indebtedness upon maturity. Any decrease in our cash flow from operating or financing activities in the future may have a material and adverse effect on our business, liquidity, financial condition, results of operations and our ability to repay our indebtedness, including the Notes.

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

We engage, or have engaged, through various group entities in limited international oil and gas production investment and related services, petrochemical engineering technical services, and

international oil and gas trading activities with certain individuals or entities and in countries that are the subject of various United States economic sanctions regimes, including Iran, Sudan, Myanmar, Syria and the Russian oil company Rosneft, in compliance with applicable laws and regulations. We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by us or our affiliates in countries that are the subject of U.S. sanctions. Although our overall operations and activities in these countries and with these individuals or entities represent only a small percentage of our consolidated assets, revenues and net income, such activities may have an adverse effect on investment in the Notes.

It is possible that, as a result of activities by us or our affiliates in these countries and with these individuals or entities, we may be subject to negative media or investor attention, which may distract management, consume internal resources and negatively affect investors' perception of our company. Further, in recent years, the U.S. Government has implemented a number of sanctions targeting non-U.S. companies that engage in certain Iran-related transactions, and broadened the range of sanctionable Iran-related transactions. The Iran Sanctions Act, or the ISA, as amended, authorizes the imposition of sanctions on companies that, among other things, make investments above certain thresholds that contribute to the development of Iranian petroleum resources (including natural gas resources); export certain levels of refined oil products to Iran; provide certain types and levels of assistance to Iran in developing petroleum resources, producing refined oil products, or importing refined oil products; transport crude oil from Iran; or conceal the Iranian origin of crude oil and refined petroleum products transported on vessels. In addition, Executive Order 13622 provides for the imposition of sanctions on persons determined to have knowingly engaged in a significant transaction for the purchase or acquisition of petroleum or petroleum products from Iran, subject to certain exemptions. We engage in certain business activities in or related to Iran that could be interpreted as activities targeted by the ISA or other U.S. sanctions. If it is determined that we do engage in activities targeted by the ISA or any other U.S. laws, regulations or Executive Orders, we could be subject to sanctions ranging from restrictions on U.S. exports or bank financing to outright blocking of our property within U.S. jurisdiction. If the most extreme sanction, blocking, were applied to our property, including property of our controlled subsidiaries, we and the Issuer could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in the Notes and distributions to U.S. individuals and entities with respect to the Notes could also be prohibited. We can give you no assurances that we will not be the subject of sanctions under the ISA or other U.S. laws in the future due to our activities in Iran. If we were sanctioned under any such laws, it could materially and adversely affect the market price of the Notes and you might be unable to sell, or receive distributions with respect to, the Notes. In addition, certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions, such as Iran or Sudan.

### **Risks Relating to Our Industry**

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

Our results of operations are materially affected by economic conditions in China and elsewhere around the world. Although nations around the world have adopted various economic policies to mitigate the adverse influences caused by factors such as the slowdown of world economy and the

European financial crisis, it is uncertain how quickly the world economy would grow going forward. Our operations may also be adversely affected by factors such as certain countries' trade protection policies which may affect export and certain regional trade agreements which may affect import.

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

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

*We face strong competition from domestic and foreign competitors.*

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. On December 4, 2007, the Ministry of Commerce of the PRC (the "MOFCOM") promulgated the "Administrative Rules for Crude Oil Market" and "Administrative Rules for Refined Oil Products Market," which opened the wholesale market of crude oil and refined oil products to new market entrants. As a result, we face increased competition in both crude oil and refined oil product markets. We also expect to face competition in both domestic and international petrochemical product markets as a result of our domestic and international competitors' increasing production capacity. Increased competition may have a material adverse effect on our financial condition and results of operations.

### **Risks Relating to Doing Business in the PRC**

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

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

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

The PRC government, though gradually liberalizing its regulations on entry into the petroleum and petrochemical industry, continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include granting licenses to explore and produce crude oil and natural gas, granting licenses to market and distribute crude oil and refined petroleum products, adjusting upper limit of the retail prices for gasoline and diesel; collecting special gain levies, formulating import and export quotas and procedures, imposing safety, environmental and quality standards, and promulgating policies to conserve energy and reduce emission; meanwhile, there could be potential changes to macroeconomic and industry

policies such as further improvement of pricing mechanism of petroleum products, reforming and improvement of pricing mechanism of natural gas, and reforming resource tax and environmental tax, which could affect our production and operations. Such control mechanisms may have material adverse effects on our operations and profitability.

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

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

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

Our production activities produce substantial amounts of liquid, gas and solid waste materials. In addition, our production facilities require operating permits that are subject to renewal, modification and revocation. We have established a system to treat waste materials to prevent and reduce pollution. However, the PRC government has moved, and may move further, toward more rigorous enforcement of applicable laws, and toward the adoption of more stringent environmental standards, which, in turn, would require us to incur additional expenditures on environmental matters.

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

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

***We are subject to audits and inspections by the PRC governmental authorities from time to time. We cannot predict the effect of the outcome of these audits and inspections on our business and financial conditions or our reputation.***

The PRC governmental authorities from time to time carry out audits, inspections, inquiries or similar actions on state-owned enterprises such as us. While we operate our business pursuant to applicable laws and regulations, we cannot predict the outcome of such governmental audits and inspections. If we are found to have material misstatements or omissions in our financial reports or material incompliance with laws or other irregularities in our operation, we may be subject to fines and other disciplinary actions imposed by such government authorities, and our reputation, business and financial conditions may be materially and adversely affected.

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

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

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

The existing foreign exchange regulations have significantly reduced government foreign exchange controls for transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to foreign exchange controls. Although many of such transactions no longer need SAFE approval, a large portion of them still require registration with SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures. The PRC government has stated publicly that it intends to make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy or when the PRC government will allow free conversion of Renminbi.

The exchange rate of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, the changes in the PRC's and international political and economic conditions. On July 21, 2005, the PRC government introduced a floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of foreign currencies. Since 2005, the value of Renminbi has appreciated significantly against U.S. dollar. On June 19, 2010, the People's Bank of China ("PBOC") decided to further promote the reform of the Renminbi exchange rate formation mechanism, and improve the flexibility of Renminbi exchange rate. On March 15, 2014, the PBOC announced to further widen Renminbi's daily trading band against U.S. dollar from 1% to 2% on either side of the daily reference rate, allowing for greater fluctuations of the exchange rate. Since we purchase a significant portion of crude oil from international suppliers, and the purchase prices are benchmarked to U.S. dollar-denominated international prices, fluctuations in the exchange rate of Renminbi against U.S. dollars and certain other foreign currencies may materially and adversely affect our crude oil purchase costs.

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

The PRC legal system is a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws,

regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate and predict the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in China as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with future partners, service providers and suppliers. The effect of future developments in the PRC legal system cannot be predicted, particularly with regard to the oil and gas industry in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

### **Risks Relating to the Notes and the Guarantees**

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

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

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

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

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

The Issuer was established by the Guarantor specifically for the purpose of raising funds through the issue of the Notes and will on-lend the net proceeds from issuing the Notes to the Guarantor and/or its subsidiaries. The Issuer does not and will not have any material assets but it will receive repayments from the Guarantor and/or its subsidiaries in respect of loans made by the Issuer to those companies, which will be the only material sources of funds available to meet the claims of holders of the Notes. As a result, the Issuer is subject to all the risks to which the Guarantor is subject, to the extent that such risks could limit their ability to satisfy in full and on a timely basis their respective obligations to the Issuer under any such loans.

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

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

The Notes are the Issuer's and our unsecured obligations and will (i) rank equally in right of payment with all the Issuer's and our other present and future senior unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's and our present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and our present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or our bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to you ratably with all of our other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid. The Issuer does not have any subsidiary and does not have any indebtedness, other than the Notes.

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

We will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Notes. The guarantee of foreign indebtedness by a PRC-incorporated entity is no longer subject to approval by the SAFE. Pursuant to the *Notice on the Promulgation of the Provisions on Foreign Exchange Administration of Cross-border Guarantee* issued by the SAFE on May 12, 2014, effective from June 1, 2014 (the "Cross-border Guarantee Provisions"), any guarantee provided by PRC-incorporated entities in favor of offshore creditors in connection with debt financing granted to offshore debtors is required to be registered with the local branch of the SAFE. Under the Cross-border Guarantee Provisions, we are required to register the Guarantees with the Beijing Branch of the SAFE (the "Beijing Branch") as a procedural matter within 15 Beijing business days after the date of execution of the Guarantees of the Notes.

In the event that we are required to perform our payment obligations under the Guarantees of the Notes, we shall submit the registration documents issued by the Beijing Branch to banks, which upon reviewing such registration documents shall process our remittance request directly. We intend to execute and register the Guarantees with the Beijing Branch as soon as reasonably practicable after the pricing date. Administrative registration of the Guarantees of the Notes with the Beijing Branch is expected to be completed soon after the closing date of the offering. However, if administrative registration is not completed by 120 Beijing business days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Notes for which administrative registration has not been completed at a price equal to 100% of the principal amount of the Notes, plus accrued and unpaid interest to but excluding the date of repurchase (a “SAFE Noncompliance Offer”), as described under “Description of the Dollar Notes and Guarantees — Repurchase upon Occurrence of Certain Events” and “Description of the Euro Notes and Guarantees — Repurchase upon Occurrence of Certain Events.”

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

The Cross-border Guarantee Provisions is a recent regulation and may be subject to a degree of executive and policy discretion and interpretation by the SAFE. See “Description of the Dollar Notes and Guarantees” and “Description of the Euro Notes and Guarantees.”

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

***The Notes and the Guarantees are unsecured obligations.***

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

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

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

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

The Notes are a new issue of securities with no established trading market. The Issuer has received an eligibility letter from the SEHK for listing of, and permission to deal in, the Notes by way of selectively marketed securities (as defined in the Listing Rules), and application has been made for the Euro Notes to be listed on the Official List of the ISE and to be admitted to trading on the Global Exchange Market. However, we cannot assure you that the application to such stock exchanges will be approved. We cannot assure you that the Notes will be or remain listed. The Issuer may elect to apply for a delisting of the Notes from any stock exchanges or markets if the listing requirements become unduly burdensome. We do not intend to apply for listing of the Notes on any U.S. securities exchange or for quotation through an automated dealer quotation system. The Initial Purchasers have advised us that they presently intend to make a market in the Notes as permitted by applicable laws. However, the Initial Purchasers are not obligated to make a market in the Notes and may discontinue their market-making activities at any time at their discretion without notice. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for securities and by changes in our financial performance or prospects of companies in our industry in general. As a result, we cannot assure you that an active trading market will develop or be maintained for the Notes. If a market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

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

- prevailing interest rates and interest rate volatility;
- our results of operations, financial condition and future prospects;
- changes in our industry and competition;
- the market conditions for similar securities; and

- general economic conditions such as the recent downgrade of the long-term sovereign credit rating of the U.S. and the ongoing European debt crisis, almost all of which are beyond our control.

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

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

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

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

The Notes are expected to be assigned a rating of Aa3 and AA- by Moody’s and S&P, respectively. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency’s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value of your Notes and increase our corporate borrowing costs.

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

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

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

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

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

***The Issuer or the Guarantor may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event it is required to pay additional amounts in respect of PRC withholding tax at a rate in excess of 10% because the Issuer (or the Guarantor) is treated as a PRC “resident enterprise.”***

In the event the Issuer is treated as a PRC “resident enterprise” under the PRC Enterprise Income Tax Law, it may be required to withhold PRC tax on interest payable to certain non-resident investors. The Guarantor is a PRC “resident enterprise” and required to withhold PRC tax on interest payable to certain non-resident investors, which would include interest payable in respect of the Notes pursuant to the Guarantee. In such case, the Issuer (or the Guarantor) will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Dollar Notes and Guarantees — Redemption — Optional Tax Redemption” and “Description of the Euro Notes and Guarantees —

Redemption — Optional Tax Redemption,” in the event the Issuer (or the Guarantor) is required to pay additional amounts as a result of certain changes in or interpretations of tax law that result in it being required to withhold tax at a rate in excess of 10% (the current PRC tax rate applicable to non-resident enterprise holders) on interest payments as a result of the Issuer (or the Guarantor) being treated as a PRC “resident enterprise,” the Issuer may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest. See “Description of the Dollar Notes and Guarantees” and “Description of the Euro Notes and Guarantees.”

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

We are a company incorporated under the laws of the PRC and most of our assets and subsidiaries are located in China. All but one of our directors and senior management reside within the PRC.

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

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

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

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

The Issuer has received an eligibility letter from the SEHK for listing of and permission to deal in the Notes by way of debt issues to professional investors only (as defined in the Listing Rules). Application has been made to the ISE for the Euro Notes to be admitted to the Official List and trading on the Global Exchange Market which is the exchange regulated market of the ISE. Upon the granting of the approvals by the SEHK and the ISE, the Issuer will be subject to the applicable corporate disclosure standards for debt securities listed on the SEHK and the ISE. The disclosure standards imposed by the SEHK and the ISE may be different than those imposed by securities exchanges in other countries or regions such as the United States or Singapore. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization and indebtedness as of December 31, 2014 and as adjusted to give effect to this offering. You should read this table in conjunction with our audited consolidated financial statements as of December 31, 2014, and related notes included elsewhere in this offering memorandum.

	As of December 31, 2014 <sup>(1)</sup>			
	Actual		As Adjusted	
	(audited)		(unaudited)	
	RMB	US\$	RMB	US\$
	(in millions)			
<b>Indebtedness<sup>(2)</sup></b>				
Indebtedness — due within one year . . . . .	278,529	44,891	278,529	44,891
Indebtedness — due after one year . . . . .	337,103	54,331	337,103	54,331
Notes offered hereby . . . . .	—	—	41,044	6,615
<b>Total indebtedness . . . . .</b>	<b>615,632</b>	<b>99,222</b>	<b>656,676</b>	<b>105,837</b>
<b>Owners' equity</b>				
Paid-up capital . . . . .	303,222	48,871	303,222	48,871
Capital reserve . . . . .	51,575	8,312	51,575	8,312
Other comprehensive income . . . . .	(33,146)	(5,342)	(33,146)	(5,342)
Specialized reserves . . . . .	931	150	931	150
Surplus reserves . . . . .	183,272	29,538	183,272	29,538
General risk reserve . . . . .	717	116	717	116
Retained profit . . . . .	228,996	36,907	228,996	36,907
Minority interest . . . . .	215,092	34,666	215,092	34,666
<b>Total owners' equity . . . . .</b>	<b>950,659</b>	<b>153,218</b>	<b>950,659</b>	<b>153,218</b>
<b>Total capitalization<sup>(3)</sup> . . . . .</b>	<b><u>1,566,291</u></b>	<b><u>252,440</u></b>	<b><u>1,607,335</u></b>	<b><u>259,055</u></b>

(1) Except as disclosed herein, there have been no material changes in the Company's consolidated capitalization since December 31, 2014.

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

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

## DESCRIPTION OF THE ISSUER

### Formation

The Issuer was incorporated with limited liability on April 2, 2015 in the British Virgin Islands under the BVI Business Companies Act 2004. Its registered office is located at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands VG1110, British Virgin Islands. The Issuer is wholly owned by us through our wholly owned subsidiary, Sinopec Group Overseas Development Limited, a company incorporated with limited liability in the British Virgin Islands. Both the Issuer and Sinopec Group Overseas Development Limited have elected to be treated as disregarded entities for U.S. Federal Income tax purposes.

### Business Activity

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

### Directors and Officers

The directors of the Issuer are Wen Dongfen and Wang Guangsheng. The directors of the Issuer do not hold any shares or options to acquire shares of the Issuer. The business address of the directors is 22 Chaoyangmen North Street, Chaoyang District, Beijing, 100728, PRC.

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

### Share Capital

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

### Summary Financial Information of the Issuer

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

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

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

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

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

## USE OF PROCEEDS

The net proceeds we expect to receive from this offering, after deducting underwriting commissions and certain estimated offering expenses, will be approximately US\$4,766 million and €1,490 million. We intend to use the net proceeds of this offering to refinance our existing indebtedness and for the general corporate purposes of our overseas businesses.

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

## OUR HISTORY AND CORPORATE STRUCTURE

### Our History

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

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

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

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

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

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

In January 2001, we incorporated Sinopec International Petroleum Exploration and Production Corporation (“SIPC”), one of our wholly owned subsidiaries, as an integrated strategic business unit to implement our overseas expansions in oil and gas exploration and production investments and operations.

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

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

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

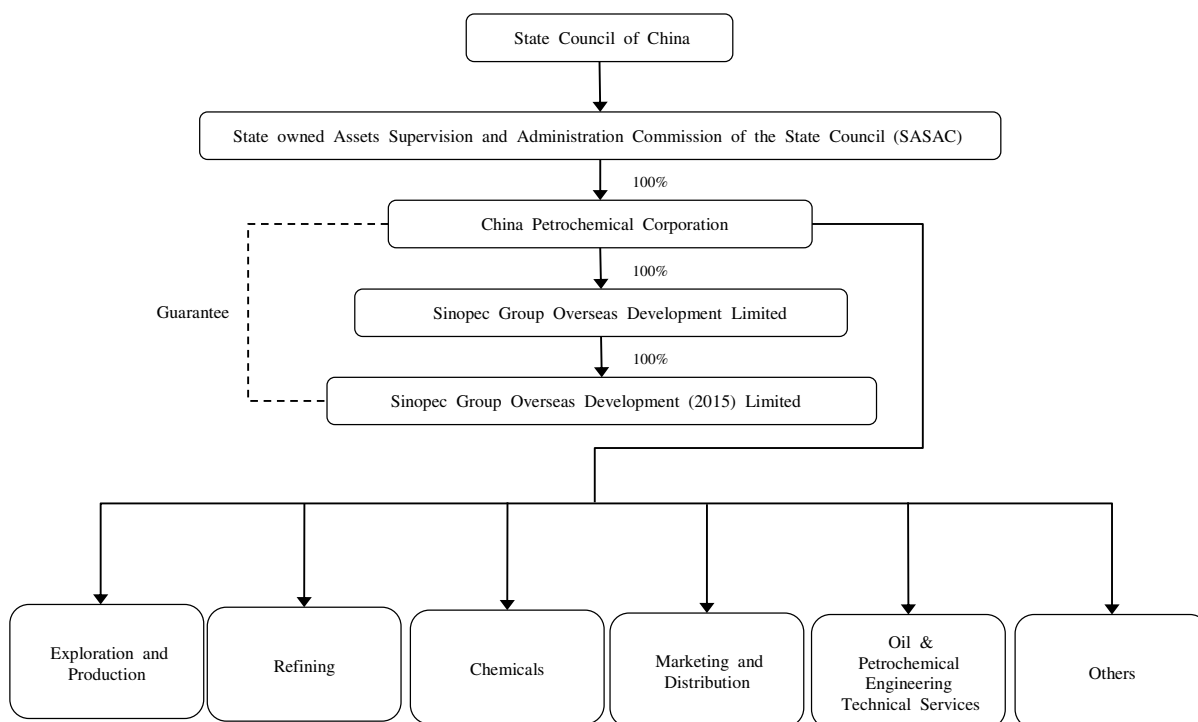
By April 2014, Sinopec Corp. had injected its assets in the marketing and distribution segment into Sinopec Marketing, a wholly-owned subsidiary of Sinopec Corp. On September 12, 2014, Sinopec Marketing entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors agreed to subscribe for certain equity interest in Sinopec Marketing. As of March 6, 2015, the 25 investors had made an aggregate capital contribution of RMB105.04 billion, representing 29.58% of the equity interest in Sinopec Marketing.

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

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

### Corporate Structure

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



## SELECTED FINANCIAL INFORMATION

The following selected historical consolidated statement of comprehensive income data for the years ended December 31, 2012, 2013 and 2014 and selected historical consolidated balance sheet data as of December 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. The audited financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for the periods presented.

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

### Selected Consolidated Income Statement Data of the Company

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
<b>Operating Revenues</b> . . . . .	2,830,609	2,945,075	2,889,934	465,773
Operating costs . . . . .	2,365,265	2,469,599	2,439,817	393,227
Business taxes and surcharges . . . . .	205,828	207,822	205,829	33,174
Selling and distribution expenses . . . . .	42,645	46,740	49,245	7,937
General and administrative expenses . . . . .	76,899	78,171	77,303	12,459
Exploration expenses . . . . .	20,643	16,797	21,370	3,444
Financial expenses . . . . .	15,953	13,398	19,111	3,080
Assets impairment losses . . . . .	7,847	4,336	10,035	1,617
<b>Operating Expenses</b> . . . . .	2,735,080	2,836,863	2,822,710	454,938
Gains (losses) from changes in fair value . . . . .	207	2,165	(4,151)	(669)
Investment income . . . . .	6,212	3,882	12,028	1,939
<b>Operating Profit</b> . . . . .	101,948	114,259	75,101	12,105
Non-operating income . . . . .	6,573	5,536	7,726	1,245
Non-operating expenses . . . . .	3,859	4,980	3,974	640
<b>Profit Before Income Tax</b> . . . . .	104,662	114,815	78,853	12,710
Income tax . . . . .	34,871	37,147	33,704	5,432
<b>Net Profit</b> . . . . .	69,791	77,668	45,149	7,278
Net profit attributable to parent company . . . . .	51,869	54,918	31,899	5,142
Net profit attributable to minority interests . . . . .	17,922	22,750	13,250	2,136

### Selected Consolidated Balance Sheet Data of the Company

	As of December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
Total current assets . . . . .	481,681	514,509	498,571	80,355
Total non-current assets . . . . .	1,466,396	1,622,414	1,729,795	278,792
Total assets . . . . .	1,948,077	2,136,923	2,228,366	359,147
Total current liabilities . . . . .	658,185	737,919	816,870	131,656
Total non-current liabilities . . . . .	498,121	495,974	460,837	74,273
Total liabilities . . . . .	1,156,306	1,233,893	1,277,707	205,929
Total owners' equity attributable to parent company . . . . .	635,490	706,176	735,567	118,552
Minority interest . . . . .	156,281	196,854	215,092	34,666
Total owners' equity . . . . .	791,771	903,030	950,659	153,218
Total liabilities and owners' equity . . . . .	1,948,077	2,136,923	2,228,366	359,147

### Selected Consolidated Cash Flows Data of the Company

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
Net cash flows generated from (used in) operating activities . . . . .	170,363	151,811	175,349	28,261
Net cash flows generated from (used in) investing activities . . . . .	(280,064)	(235,775)	(208,842)	(33,659)
Net cash flows generated from (used in) financing activities . . . . .	74,769	95,668	16,430	2,648
Effect of foreign exchange rate changes . . . . .	153	(1,226)	(786)	(127)
Net increase (decrease) in cash and cash equivalents . . . . .	(34,779)	10,478	(17,849)	(2,877)
Cash and cash equivalents at the beginning of the year . . . . .	77,430	42,651	53,129	8,563
Cash and cash equivalents at the end of the year . . . . .	<u>42,651</u>	<u>53,129</u>	<u>35,280</u>	<u>5,686</u>

## Other Financial Data of the Company

	As of and for the Year Ended December 31,		
	2012	2013	2014
EBITDA <sup>(1)</sup> (RMB in millions) . . . . .	231,831	243,182	226,662
EBITDA <sup>(1)</sup> (US\$ in millions) . . . . .	37,211	40,171	36,531
EBITDA margin <sup>(2)</sup> . . . . .	8.2%	8.3%	7.8%
Total debt <sup>(3)</sup> (RMB in millions) . . . . .	525,975	591,088	615,632
Net debt <sup>(4)</sup> (RMB in millions) . . . . .	483,402	538,091	580,413
Total debt/EBITDA . . . . .	2.27	2.43	2.72
Net debt/EBITDA . . . . .	2.09	2.21	2.56
EBITDA/Interest <sup>(5)</sup> . . . . .	12.68	12.55	11.21
Total debt/Total capitalization <sup>(6)</sup> . . . . .	39.92%	39.57%	39.31%
Cash/Short-term borrowings . . . . .	29.12%	23.42%	12.64%

- (1) EBITDA for any period is calculated as operating profit adjusted for foreign exchange gains (losses), investment income and gains (losses) from changes in fair value, plus assets impairment losses, interest expenses and depreciation, depletion and amortization. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Company's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating EBITDA, the Company believes that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. The Company has included EBITDA because it believes that it is a useful supplement to the cash flow data as a measure of the Company's performance and its ability to generate cash flow from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Company's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.
- (2) EBITDA margin is calculated as EBITDA divided by operating revenues.
- (3) Total debt consists of all short-term borrowings, long-term borrowings, borrowings from other financial institutions, long-term debt due within one year and bonds payable. It does not include amounts due to our subsidiaries.
- (4) Net debt is calculated as total debt minus cash.
- (5) Interest is calculated as interest expenses plus capitalized interests.
- (6) Total capitalization equals total debt plus total owners' equity.

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

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

### Overview

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of operating revenue, according to the "2014 Fortune Global 500." We principally engage in the exploration, development and production of crude oil and natural gas, the operation of refineries and petrochemical facilities and the marketing of crude oil, natural gas, refined oil products and chemical products. We have reported our consolidated financial results according to the following six principal business segments.

- *Exploration and Production Segment*, which consists of exploring for, developing, producing and selling crude oil and natural gas;
- *Refining Segment*, which consists of purchasing crude oil from our exploration and production segment and from third parties, processing crude oil into refined oil products and selling refined oil products principally to our marketing and distribution segment;
- *Chemicals Segment*, which consists of purchasing chemical feedstock principally from the refining segment and producing, marketing, selling and distributing chemical products;
- *Marketing and Distribution Segment*, which consists of purchasing refined oil products from our refining segment and third parties, and marketing, selling and distributing refined oil products by wholesale to large customers and independent distributors and by retail through our retail network;
- *Oil & Petrochemical Engineering Technical Services Segment*, which consists of providing a range of oilfield services including geophysical exploration, drilling, well logging, mud logging and downhole operations under various geologic and engineering conditions as well as designing and constructing large-scale refining and petrochemical projects; and
- *Others Segment*, which consists principally of international trade, research and development as well as other businesses, which are collectively referred to as our "Others" segment.

## **Factors Affecting Results of Operations**

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

### ***Macroeconomic Environment***

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

### ***Commodity and Product Prices***

#### ***Crude oil and natural gas prices***

Our results of operations are substantially affected by crude oil and natural gas prices. We produce and purchase crude oil and natural gas for our internal use in refining and chemical productions as well as for sale to external customers. Changes in the prices of crude oil and natural gas in China may have a significant effect on, among other things, (i) the revenue from our exploration and production segment and our oil and gas trading business and (ii) the costs of our refining segment, chemical segment and our oil and gas trading business.

Crude oil and natural gas prices are subject to fluctuations due to market uncertainty and various other factors that are beyond our control, including, but not limited to, government controls, overall economic conditions, supply and demand dynamics for crude oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources, as well as weather conditions.

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

#### ***Prices of refined oil products and chemical products***

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

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

### ***Production, Sales Volumes and Product Mix***

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

### ***Regulatory Environment***

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

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

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

## ***Competition***

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside the PRC, which have recently become more significant participants in the petroleum and petrochemical industry in China. On December 4, 2007, the MOFCOM of the PRC promulgated the “Administrative Rules for Crude Oil Market” and “Administrative Rules for Refined Oil Products Market”, which open the wholesale market of crude oil and refined oil products to new market entrants. As a result, we face more competition in both crude oil and refined oil product markets. We also expect to face competition in both domestic and international petrochemical product markets as a result of our domestic and international competitors’ increasing production capacity. Increased competition may have an adverse effect on our financial condition and results of operations.

## **Critical Accounting Judgments and Estimates**

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

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

### ***Oil and Gas Properties and Reserves***

The accounting for our upstream oil and gas activities is subject to special accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. We have elected to use the successful efforts method.

The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalized and written-off (depreciated) over time.

Engineering estimates of our oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as “proved.” Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs, and in disclosing the supplemental standardized measure of discounted future net cash flows relating to proved oil and gas properties. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalized costs of producing properties (the numerator). Producing properties' capitalized costs are amortized based on the units of oil or gas produced. Therefore, assuming all other variables are held constant, an increase in estimated proved developed reserves decreases our depreciation, depletion and amortization expense. Also, estimated reserves are often used to calculate future cash flows from our oil and gas operations, which serve as an indicator of fair value in determining whether a property is impaired or not. The larger the estimated reserves, the less likely the property is impaired. There have been no significant changes to the original reserve estimates during any of the three years ended December 31, 2012, 2013 and 2014.

#### ***Impairment for Long-lived Assets***

If circumstances indicate that the net book value of a long-lived asset, including oil and gas properties, may not be recoverable, the asset may be "impaired," and an impairment loss may be recognized. The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. For goodwill, the recoverable amount is estimated annually. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for our assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sales volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of reserve quantities, sales volume, selling price and amount of operating costs.

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

	Year Ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Held-to-maturity investments impairment loss . . . . .	(3)	—	—
Long-term equity investment impairment loss . . . . .	—	2	2
Fixed assets impairment loss . . . . .	8	173	1,041
Oil and gas assets impairment loss . . . . .	1,006	2,520	4,238
Intangible assets impairment loss . . . . .	—	—	179
Construction supplies impairment loss . . . . .	—	365	399
Construction in progress impairment loss . . . . .	—	15	10
Total impairment loss . . . . .	<u>1,011</u>	<u>3,075</u>	<u>5,869</u>

***Depreciation***

Property, plant and equipment (other than oil and gas properties) are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and take into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There have been no significant changes to the estimated useful lives and residual values during each of the three years ended December 31, 2012, 2013 and 2014.

***Impairment of Accounts Receivable for Bad and Doubtful Debts***

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

	Year Ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Impairment losses for bad and doubtful accounts . . . . .	<u>(67)</u>	<u>(1,024)</u>	<u>799</u>

### *Allowance for Diminution in Value of Inventories*

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

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

	Year Ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Allowance for diminution in value of inventories . . . . .	<u>7,040</u>	<u>1,528</u>	<u>3,238</u>

### **Results of Operations of the Company**

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

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
<b>Operating Revenues</b> . . . . .	2,830,609	2,945,075	2,889,934	465,773
Operating costs . . . . .	2,365,265	2,469,599	2,439,817	393,227
Business taxes and surcharges . . . . .	205,828	207,822	205,829	33,174
Selling and distribution expenses . . . . .	42,645	46,740	49,245	7,937
General and administrative expenses . . . . .	76,899	78,171	77,303	12,459
Exploration expenses . . . . .	20,643	16,797	21,370	3,444
Financial expenses . . . . .	15,953	13,398	19,111	3,080
Assets impairment losses . . . . .	<u>7,847</u>	<u>4,336</u>	<u>10,035</u>	<u>1,617</u>
<b>Operating Expenses</b> . . . . .	2,735,080	2,836,863	2,822,710	454,938
Gains (losses) from changes in fair value . . . . .	207	2,165	(4,151)	(669)
Investment income . . . . .	<u>6,212</u>	<u>3,882</u>	<u>12,028</u>	<u>1,939</u>
<b>Operating Profit</b> . . . . .	<u>101,948</u>	<u>114,259</u>	<u>75,101</u>	<u>12,105</u>
Non-operating income . . . . .	6,573	5,536	7,726	1,245
Non-operating expenses . . . . .	<u>3,859</u>	<u>4,980</u>	<u>3,974</u>	<u>640</u>
<b>Profit Before Income Tax</b> . . . . .	104,662	114,815	78,853	12,710
Income tax . . . . .	<u>34,871</u>	<u>37,147</u>	<u>33,704</u>	<u>5,432</u>
<b>Net Profit</b> . . . . .	<u>69,791</u>	<u>77,668</u>	<u>45,149</u>	<u>7,278</u>
Net profit attributable to parent company . . . . .	51,869	54,918	31,899	5,142
Net profit attributable to minority interests . . . . .	17,922	22,750	13,250	2,136

## *Year Ended December 31, 2014 Compared to Year Ended December 31, 2013*

### *Operating revenues*

Operating revenues decreased by 1.9% from RMB 2,945,075 million for the year ended December 31, 2013 to RMB 2,889,934 million for the year ended December 31, 2014. This decrease was mainly attributable to the prolonged decreases in the sales prices of oil and gas, and the decreases in the sales prices of refined oil products and chemical products. The decrease in operating revenues primarily consisted of decreases in sales revenues realized by our exploration and production segment, refining segment, chemicals segment, marketing and distribution segment and others segment, partially offset by the increase in the revenue realized by our engineering segment.

The decrease in sales revenue realized by our exploration and production segment was mainly due to the decline in crude oil and gas prices.

The decrease in sales revenue realized by our marketing and distribution segment which sell refined oil products externally was mainly due to the decline in prices and sales volumes of various petroleum products, which offset the increase in sales volumes of gasoline, diesel and kerosene. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) decreased from RMB 8,498 per tonne, RMB 7,050 per tonne and RMB 6,116 per tonne in 2013 to RMB 8,339 per tonne, RMB 6,647 per tonne and RMB 5,710 per tonne in 2014, respectively. Our aggregate sales volume of gasoline, diesel and kerosene (including jet fuel) increased from 59,482 thousand tonnes, 99,855 thousand tonnes and 20,162 thousand tonnes in 2013 to 64,083 thousand tonnes, 102,724 thousand tonnes and 21,845 thousand tonnes in 2014, respectively.

The decrease in sales revenue of our chemicals segment was mainly due to the decline in prices of chemical product, which offset the sales volume increase of basic chemical feedstock and synthetic resin.

The decrease in the sales revenue of our others segment was mainly attributable to decreased trading activities for crude oil and refined oil products by our trading companies.

### *Operating costs*

Operating costs decreased by 1.2% from RMB 2,469,599 million for the year ended December 31, 2013 to RMB 2,439,817 million for the year ended December 31, 2014. This decrease was primarily due to the decline of crude oil and gas prices.

### *Business taxes and surcharges*

Business taxes and surcharges slightly decreased from RMB 207,822 million for the year ended December 31, 2013 to RMB 205,829 million for the year ended December 31, 2014.

### *Selling and distribution expenses*

Selling expenses increased by 5.4% from RMB 46,740 million for the year ended December 31, 2013 to RMB 49,245 million for the year ended December 31, 2014. The increase was mainly attributable to the increases in personnel compensation and depreciation and amortization.

### *General and administrative expenses*

General and administrative expenses decreased by 1.1% from RMB 78,171 million for the year ended December 31, 2013 to RMB 77,303 million for the year ended December 31, 2014.

### *Exploration expenses*

Exploration expenses increased by 27.2% from RMB 16,797 million for the year ended December 31, 2013 to RMB 21,370 million for the year ended December 31, 2014, mainly due to the expenses incurred when we terminated several exploration projects that were no longer economical because of low oil and gas prices.

### *Financial expenses*

Financial expenses increased by 42.6% from RMB 13,398 million for the year ended December 31, 2013 to RMB 19,111 million for the year ended December 31, 2014, primarily due to a foreign exchange loss resulting from the fluctuation of Renminbi against U.S. dollars in 2014. We had a foreign exchange loss of RMB 1,594 million in 2014, as compared to a foreign exchange gain of RMB 3,639 million in 2013.

### *Assets impairment losses*

Assets impairment losses increased by 131.4% from RMB 4,336 million for the year ended December 31, 2013 to RMB 10,035 million for the year ended December 31, 2014, primarily due to the increase in oil and gas assets impairment provision and inventory impairment provision, as a result of the sharp drop of oil and gas prices.

### *Loss from changes in fair value*

Our loss from changes in fair value was RMB 4,151 million for the year ended December 31, 2014, as compared to a gain from changes in fair value of RMB 2,165 million for the year ended December 31, 2013. The change was primarily due to losses arising from the change in fair value of the convertible bonds issued by Sinopec Corp.

### *Investment income*

Investment income increased by 209.8% from RMB 3,882 million for the year ended December 31, 2013 to RMB 12,028 million for the year ended December 31, 2014, primarily due to an increase in investment income from some of our available-for-sale financial assets.

### *Operating profit*

As a result of the foregoing, operating profit decreased by 34.3% from RMB 114,259 million for the year ended December 31, 2013 to RMB 75,101 million for the year ended December 31, 2014.

### *Non-operating income*

Non-operating income increased by 39.6% from RMB 5,536 million for the year ended December 31, 2013 to RMB 7,726 million for the year ended December 31, 2014.

### *Non-operating expenses*

Non-operating expenses decreased by 20.2% from RMB 4,980 million for the year ended December 31, 2013 to RMB 3,974 million for the year ended December 31, 2014.

### *Income tax*

Income tax decreased by 9.3% from RMB 37,147 million for the year ended December 31, 2013 to RMB 33,704 million for the year ended December 31, 2014, primarily due to a decrease in taxable income.

### *Net profit*

As a result of the foregoing, net profit decreased by 41.9% from RMB 77,668 million for the year ended December 31, 2013 to RMB 45,149 million for the year ended December 31, 2014.

### *Minority interest*

Minority interest decreased by 41.8% from RMB 22,750 million for the year ended December 31, 2013 to RMB 13,250 million for the year ended December 31, 2014.

## ***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***

### *Operating revenues*

Operating revenues increased by 4.0% from RMB 2,830,609 million for the year ended December 31, 2012 to RMB 2,945,075 million for the year ended December 31, 2013. This increase was mainly attributable to increases in the sales volumes of refined oil products and chemical products. The increase in operating revenues primarily consisted of increases in sales revenues realized by our refining segment, marketing and distribution segment, chemicals segment and others segment, partially offset by a decrease in sales revenues realized by our exploration and production segment.

The increase in sales revenue realized by our marketing and distribution segment which sell refined oil products externally was mainly due to an increase in our sales volume of our refined oil products. Our average realized prices of gasoline, diesel and kerosene (including jet fuel) decreased from RMB 8,615 per tone, RMB 7,219 per tonne and RMB 6,416 per tonne in 2012 to RMB 8,498 per tonne, RMB 7,050 per tone and RMB 6,116 per tonne in 2013, respectively. Our

aggregate sales volume of gasoline and kerosene (including jet fuel) increased from 53,488 thousand tonnes and 18,760 thousand tonnes in 2012 to 59,482 thousand tonnes and 20,162 thousand tonnes in 2013, respectively. Our aggregate sales volume of diesel slightly decreased from 99,864 thousand tonnes in 2012 to 99,855 thousand tonnes in 2013.

The increase in sales revenue of our chemicals segment was mainly due to the expanded sales volume of our chemical products resulted from our proactive market developing efforts.

The increase in the sales revenue of our others segment was mainly attributable to increased trading activities for crude oil and refined oil products by our trading companies.

#### *Operating costs*

Operating costs increased by 4.4% from RMB 2,365,265 million for the year ended December 31, 2012 to RMB 2,469,599 million for the year ended December 31, 2013. This increase was primarily due to the increase in (i) the depreciation of oil and gas assets resulting from increased exploration and production activities, (ii) the costs of crude oil and refined oil products that we purchased for trading operations in our others segment, and (iii) other purchasing expenses, including the costs of refined oil products, chemical feedstock and other products due to the expansion of our production and trading activities in our chemical, marketing and distribution and oil and petrochemical engineering technical service segments; and partially offset by a decrease in refining costs largely as a result of lower crude oil prices in 2013.

#### *Business taxes and surcharges*

Business taxes and surcharges slightly increased from RMB 205,828 million for the year ended December 31, 2012 to RMB 207,822 million for the year ended December 31, 2013.

#### *Selling and distribution expenses*

Selling expenses increased by 9.6% from RMB 42,645 million for the year ended December 31, 2012 to RMB 46,740 million for the year ended December 31, 2013. The increase was mainly attributable to the increases in personnel compensation, depreciation and amortization, transportation expenses and maintenance expenses resulting from the expansion of our sales activities.

#### *General and administrative expenses*

General and administrative expenses increased by 1.7% from RMB 76,899 million for the year ended December 31, 2012 to RMB 78,171 million for the year ended December 31, 2013.

#### *Exploration expenses*

Exploration expenses decreased by 18.6% from RMB 20,643 million for the year ended December 31, 2012 to RMB 16,797 million for the year ended December 31, 2013.

#### *Financial expenses*

Financial expenses decreased by 16.0% from RMB 15,953 million for the year ended December 31, 2012 to RMB 13,398 million for the year ended December 31, 2013, primarily due to a foreign exchange gain resulting from appreciation of Renminbi against the U.S. dollars in 2013.

#### *Assets impairment losses*

Assets impairment losses decreased by 44.7% from RMB 7,847 million for the year ended December 31, 2012 to RMB 4,336 million for the year ended December 31, 2013, primarily due to a decrease in impairment loss for bad and doubtful accounts and a decrease in allowance for diminution in value of inventories, which was partially offset by an increase in oil and gas assets impairment loss.

#### *Gain from changes in fair value*

Our gain from changes in fair value increased from RMB 207 million for the year ended December 31, 2012 to RMB 2,165 million for the year ended December 31, 2013, primarily due to an increase in the fair value of the embedded derivative component of the convertible bonds of Sinopec Corp.

#### *Investment income*

Investment income decreased by 37.5% from RMB 6,212 million for the year ended December 31, 2012 to RMB 3,882 million for the year ended December 31, 2013, primarily due to a decrease in investment income from some of our equity-accounted joint ventures.

#### *Operating profit*

As a result of the foregoing, operating profit increased by 12.1% from RMB 101,948 million for the year ended December 31, 2012 to RMB 114,259 million for the year ended December 31, 2013.

#### *Non-operating income*

Non-operating income decreased by 15.8% from RMB 6,573 million for the year ended December 31, 2012 to RMB 5,536 million for the year ended December 31, 2013.

#### *Non-operating expenses*

Non-operating expenses increased by 29.0% from RMB 3,859 million for the year ended December 31, 2012 to RMB 4,980 million for the year ended December 31, 2013.

#### *Income tax*

Income tax increased by 6.5% from RMB 34,871 million for the year ended December 31, 2012 to RMB 37,147 million for the year ended December 31, 2013, primarily due to an increase in our payment of deferred taxes and, to a less extent, an increase in taxable income.

#### *Net profit*

Primarily as a result of the foregoing, net profit increased by 11.3% from RMB 69,791 million for the year ended December 31, 2012 to RMB 77,668 million for the year ended December 31, 2013.

*Net profit attributable to minority interests*

Net profit attributable to minority interests increased by 26.9% from RMB 17,922 million for the year ended December 31, 2012 to RMB 22,750 million for the year ended December 31, 2013. This increase was due to the initial public offering of Sinopec Engineering and a follow-on offering of Sinopec Corp., and our increased net profit in those subsidiaries with minority interests in 2013.

***Segment Information***

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

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
<b>Total Operating Revenues:</b>				
Exploration and Production .....	318,601	304,601	296,527	47,791
Refining .....	1,282,825	1,311,269	1,273,095	205,186
Chemicals .....	459,666	486,646	473,229	76,271
Marketing and Distribution .....	1,471,882	1,502,414	1,476,605	237,986
Oil & Petrochemical Engineering Technical Services .....	135,347	143,286	151,794	24,465
Others .....	1,367,040	1,462,451	1,380,859	222,554
Elimination of inter-segment .....	<u>(2,204,752)</u>	<u>(2,265,592)</u>	<u>(2,162,175)</u>	<u>(348,480)</u>
<b>Total</b> .....	<u>2,830,609</u>	<u>2,945,075</u>	<u>2,889,934</u>	<u>465,773</u>
<b>Total Operating Expenses:</b>				
Exploration and Production .....	244,682	246,403	259,550	41,832
Refining .....	1,300,179	1,304,539	1,278,946	206,129
Chemicals .....	462,611	490,184	479,953	77,354
Marketing and Distribution .....	1,429,560	1,467,745	1,446,462	233,127
Oil & Petrochemical Engineering Technical Services .....	131,080	138,385	147,030	23,697
Others .....	1,370,415	1,456,867	1,375,673	221,718
Elimination of inter-segment .....	<u>(2,203,447)</u>	<u>(2,267,260)</u>	<u>(2,164,904)</u>	<u>(348,919)</u>
<b>Total</b> .....	<u>2,735,080</u>	<u>2,836,863</u>	<u>2,822,710</u>	<u>454,938</u>
<b>Total Operating Profit/(Loss)</b>				
Exploration and Production .....	78,038	59,716	40,291	6,495
Refining .....	(17,354)	6,285	(6,698)	(1,080)
Chemicals .....	(2,349)	(2,693)	(5,516)	(889)
Marketing and Distribution .....	42,322	35,646	31,888	5,139
Oil & Petrochemical Engineering Technical Services .....	4,801	5,235	5,213	840
Others .....	(1,716)	10,997	10,102	1,628
Elimination of inter-segment .....	<u>(1,794)</u>	<u>(927)</u>	<u>(179)</u>	<u>(28)</u>
<b>Total</b> .....	<u>101,948</u>	<u>114,259</u>	<u>75,101</u>	<u>12,105</u>

## Liquidity and Capital Resources of the Company

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

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

### Cash Flows

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

	Year Ended December 31,			
	2012	2013	2014	
	RMB	RMB	RMB	US\$
	(in millions)			
Net cash flows generated from (used in) operating activities . . . . .	170,363	151,811	175,349	28,261
Net cash flows generated from (used in) investing activities . . . . .	(280,064)	(235,775)	(208,842)	(33,659)
Net cash flows generated from (used in) financing activities . . . . .	74,769	95,668	16,430	2,648
Effect of foreign exchange rate changes . . . . .	153	(1,226)	(786)	(127)
Net increase (decrease) in cash and cash equivalents . . . . .	(34,779)	10,478	(17,849)	(2,877)
Cash and cash equivalents at the beginning of the year . . . . .	77,430	42,651	53,129	8,563
Cash and cash equivalents at the end of the year . . . . .	<u>42,651</u>	<u>53,129</u>	<u>35,280</u>	<u>5,686</u>

### Operating activities

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

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

The net cash generated from our operating activities in 2014 was RMB 175,349 million, primarily as a result of net profit of RMB 45,149 million, as adjusted mainly by depreciation and amortization of RMB 131,183 million, financial expenses of RMB 19,818 million, exploration expenses of RMB 15,988 million and the effects of changes in working capital. Changes in

working capital mainly included (i) a decrease in operating payables of RMB 36,501 million, which was partially due to a decrease in accounts payables resulting from lower crude oil prices in 2014; (ii) a decrease in inventories of RMB 13,091 million and (iii) an increase in operating receivables of RMB 17,021 million, which was primarily due to (a) an increase in accounts receivables of some of our subsidiaries, including China International United Petroleum & Chemicals Co., Ltd. (“Unipet”) and (b) an increase in Unipet’s other receivables because of the significant growth in its hedging business in 2014.

The net cash generated from our operating activities in 2013 was RMB 151,811 million, primarily as a result of net profit of RMB 77,668 million, as adjusted mainly by depreciation and amortization of RMB 113,200 million, exploration expenses of RMB 9,823 million, financial expenses of RMB 13,795 million and the effects of changes in working capital. Changes in working capital mainly included (i) a decrease in operating payables of RMB 20,551 million, which was partially due to a decrease in accounts payables resulting from lower crude oil prices in 2013; (ii) an increase in inventories of RMB 12,234 million and (iii) an increase in operating receivables of RMB 29,140 million, which was primarily due to expansion of our operational scale.

The net cash generated from our operating activities in 2012 was RMB 170,363 million, primarily as a result of net profit of RMB 69,791 million, as adjusted mainly by depreciation and amortization of RMB 111,880 million, exploration expenses of RMB 13,099 million, financial expenses of RMB 17,221 million and the effects of changes in working capital. Changes in working capital mainly included (i) an increase in operating payables of RMB 9,404 million, (ii) an increase in inventories of RMB 35,060 million and (iii) an increase in operating receivables of RMB 15,681 million, which were primarily due to expansion of our operational scale and substantial increases in oil prices.

#### *Investing activities*

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

The net cash used in our investing activities in 2014 was RMB 208,842 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 191,832 million, cash paid for acquisition of investments of RMB 99,483 million, other cash paid relating to investing activities of RMB 19,737 million, which were partially offset by cash received from disposal of investments of RMB 90,750 million, and cash received from investment income of RMB 6,711 million.

The net cash used in our investing activities in 2013 was RMB 235,775 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 210,959 million, other cash paid relating to investing activities of RMB 21,844 million and cash paid for investment of RMB 29,884 million, which were partially offset by other cash received from investing activities of RMB 14,593 million and cash received from disposal of investments of RMB 7,281 million.

The net cash used in our investing activities in 2012 was RMB 280,064 million, consisting primarily of cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets of RMB 211,322 million, other cash paid relating to investing activities of RMB 66,370 million and cash paid for investment of RMB 81,484 million, which were partially offset by other cash received from investing activities of RMB 58,910 million and cash received from disposal of investments of RMB 15,724 million.

#### *Financing activities*

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

Our net cash generated from financing activities in 2014 was RMB 16,430 million, primarily consisting of cash received from borrowings of RMB 1,085,643 million, which was partially offset by cash repayments of borrowings of RMB 1,065,594 million. Our net cash generated from financing activities in 2013 was RMB 95,668 million, primarily consisting of cash received from borrowings of RMB 1,257,240 million, which was partially offset by cash repayments of amounts borrowed of RMB 1,190,409 million. Our net cash generated from financing activities in 2012 was RMB 74,769 million, primarily consisting of cash received from borrowings of RMB 825,111 million, which was partially offset by cash repayments of amounts borrowed of RMB 738,103 million.

#### *Borrowings and Indebtedness*

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

	<u>As of December 31, 2014</u>	
	<u>RMB</u>	<u>US\$</u>
	(in millions)	
Bank borrowings . . . . .	427,837	68,955
Bonds . . . . .	<u>187,795</u>	<u>30,267</u>
<b>Total indebtedness . . . . .</b>	<b><u>615,632</u></b>	<b><u>99,222</u></b>

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

	<u>As of December 31, 2014</u>	
	<u>RMB</u>	<u>US\$</u>
	(in millions)	
One year or less . . . . .	278,529	44,891
Over one year to five years . . . . .	265,803	42,840
Over five year . . . . .	<u>71,300</u>	<u>11,491</u>
<b>Total indebtedness . . . . .</b>	<b><u>615,632</u></b>	<b><u>99,222</u></b>

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

	As of December 31, 2014	
	RMB (in millions)	US\$
Secured . . . . .	593	96
Unsecured . . . . .	615,039	99,126
<b>Total indebtedness</b> . . . . .	<u>615,632</u>	<u>99,222</u>

As of December 31, 2014, 24.7% of our borrowings and indebtedness were denominated in Renminbi and 75.3% were denominated in foreign currency; 41.7% of our borrowings and indebtedness were fixed rate and 58.3% were floating rate.

Our bank borrowings consist mainly of short-term loans, long-term borrowings due within one year and long-term loans due in more than one year. Included in secured borrowings and indebtedness are bank loans guaranteed by third parties or secured through mortgage or pledge. As of December 31, 2014, the total lines of credit available to us were RMB1,635 billion, 37.5% of which was used. Our bonds payable consists of long-term corporate bonds, mid-term notes and short-term financing bills, substantially all of which were unsecured.<sup>1</sup>

#### **Contractual Obligations and Commercial Commitments**

The following table sets forth our obligations and commitments to make future payments under contracts and commercial commitments as of December 31, 2014.

	As of December 31, 2014				
	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
	(RMB in millions)				
<b>Contractual obligations<sup>(1)</sup></b>					
Short-term debt . . . . .	180,671	180,671	—	—	—
Long-term debt . . . . .	434,961	97,858	259,873	5,930	71,300
<b>Total contractual obligations</b> . . . . .	<u>615,632</u>	<u>278,529</u>	<u>259,873</u>	<u>5,930</u>	<u>71,300</u>
<b>Other commercial commitments</b>					
Operating lease commitments . . . . .	16,229	1,955	5,714	5,226	3,334
Capital commitments . . . . .	243,171	137,890	105,281	—	—
Exploration and production licenses . . . . .	1,356	312	192	41	811
Guarantees <sup>(2)</sup> . . . . .	6,391	6,391	—	—	—
<b>Total commercial commitments</b> . . . . .	<u>267,147</u>	<u>146,548</u>	<u>111,187</u>	<u>5,267</u>	<u>4,145</u>

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

(2) Guarantee is not limited by time, therefore specific payment due period is not applicable. See Note X to the Auditor's Report included in this offering memorandum for further information of the guarantees.

<sup>1</sup> For a description of our corporate and convertible bonds, please see Note VIII.30 to the Auditor's Report included in this offering memorandum.

## Capital Expenditure

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

	2012		2013		2014	
	RMB	Percent	RMB	Percent	RMB	Percent
(in millions, except percentage data)						
Exploration and production .	189,123	64.1%	177,191	63.3%	143,748	61.7%
Refining . . . . .	36,399	12.3%	33,145	11.9%	29,957	12.8%
Chemicals . . . . .	24,939	8.5%	21,864	7.8%	17,550	7.5%
Marketing and distribution .	26,597	9.0%	26,578	9.5%	26,989	11.6%
Oil and Petrochemical Engineering Technical services . . . . .	6,855	2.3%	6,868	2.5%	4,394	1.9%
Others . . . . .	10,987	3.8%	13,964	5.0%	10,472	4.5%
<b>Total</b> . . . . .	<u>294,900</u>	<u>100.0%</u>	<u>279,610</u>	<u>100.0%</u>	<u>233,110</u>	<u>100.0%</u>

## Off-Balance Sheet Arrangement

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

## Contingent Liabilities from Guarantees

As of December 31, 2014, the total amount of guarantees provided by us was RMB 6,391 million, all of which were related to loans. We expect that no material liabilities will arise from our guarantees or legal proceedings.

## Dividends

As a state-owned enterprise incorporated in China, we distribute profits to the relevant PRC authorities from time to time. In 2014, we distributed RMB 9,886 million to the relevant PRC authorities.

## Market Risks

### Currency Risk

We conduct our businesses primarily in Renminbi. However, there are also foreign currency-denominated transactions arising from our foreign operations. We are exposed to U.S. dollar/Renminbi exchange rate risk as our revenue is principally generated in Renminbi and we have issued debt obligations that require us to make interest and principal payments in U.S. dollars. Currently, the PRC government has implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi is still regulated in capital projects. The exchange rates of Renminbi are affected by domestic and

international economic and political changes, and demand and supply for Renminbi. Future exchange rates of Renminbi against other currencies may vary significantly from the current exchange rates, which in turn would affect our operating results and financial position as well as our ability to service our foreign currency-denominated debt obligations.

### ***Interest Rate Risk***

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

### ***Price Risk***

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

### ***Inflation***

In 2012, 2013 and 2014, the Consumer Price Index increased by 2.6%, 2.6% and 2.0%, respectively, from the previous year, according to the PRC National Bureau of Statistics. Although we have not historically been materially affected by inflation since our inception, our results of operations may in the future be adversely affected by higher inflation rates in China.

## INDUSTRY OVERVIEW

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

### Overview of the Global Oil and Gas Market

#### *Oil and Gas Consumption*

Global oil demand has grown steadily in recent years, with consumption more than tripled over the past fifty years. According to the BP Statistical Review of World Energy June 2014 (the “BP Review”), global oil consumption grew from 80.2 million barrels per day (“million bpd”) in 2003 to 91.3 million bpd in 2013, representing a compound annual growth rate (“CAGR”) of 1.3%. According to the BP Energy Outlook 2035 (the “BP Outlook”), global oil consumption is projected to grow, reaching to 111 million bpd in 2035, representing a CAGR of 0.9% over the period from 2013 to 2035.

The growth in global oil consumption is driven primarily by developing country economies, among which China has been the primary contributor with ever-increasing import requirements. According to the BP Review, China’s oil consumption has grown from 5.8 million bpd in 2003 to 10.8 million bpd in 2013, representing a CAGR of 6.4%. In contrast, oil consumption in major economies, such as the United States and Russia, grew at CAGRs of -0.6% and 2.1%, respectively, over the same period.

Similar to oil demand, global natural gas demand has also grown rapidly in recent years, with consumption expanding over five times from 1965 to 2013. According to the BP Review, global natural gas demand grew from 251.2 billion cubic feet per day (“bcfd”) in 2003 to 323.9 bcfd in 2013, representing a CAGR of 2.6%. In addition, the BP Outlook forecasts global natural gas demand to grow and reach 489.5 bcfd in 2035, representing a CAGR of 1.9% over the period from 2013 to 2035.

The growth in global natural gas consumption has been driven primarily by countries that are not members of the Organization for Economic Co-operation and Development (“OECD”) and developing economies. In particular, China has been the key contributor to natural gas consumption growth in the past decade. According to the BP Review, China’s natural gas consumption grew from 3.3 bcfd in 2003 to 15.6 bcfd in 2013, representing a CAGR of 16.9%.

#### *Oil and Gas Production*

On the supply side, according to the BP Review, global oil production increased by 0.6% from 2012 to 2013 and reached 86.8 million bpd in 2013. OPEC countries reduced their production by 0.6 million bpd in 2013, representing a 1.8% decrease from 2012. As conventional oil production in non-OPEC countries reaches its peak level, most of the future increase in oil production is expected to come from OPEC countries, which hold the bulk of world’s remaining recoverable conventional oil resources. The BP Outlook forecasts global oil production to reach 98.1 million bpd in 2035, representing a CAGR of 0.6% from 2013.

According to the BP Review, global natural gas production increased by 1.1% from 2012 to 2013 and reached 326.0 bcfd in 2013. The United States and Russia are the two largest natural gas producers in the world. The United States recorded a production increase of 1.3% or 0.8 bcfd, while Russia recorded a larger production increase of 2.4% or 1.3 bcfd in 2013. Most notably, the increase in the US gas production was largely attributed to the discovery of significant shale gas resources over the past decade and technological development that have made commercialization of such resources viable. Unconventional gas resources such as shale gas, coal bed methane and tight gas are expected to play an increasingly important role in the world's future energy supply.

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

### *Oil and Gas Prices*

The global economic downturn and subsequent recovery have resulted in unprecedented volatility in the oil and gas industry over the last few years. The West Texas Intermediate ("WTI") and the Brent crude oil prices increased from US\$101/bbl and US\$100/bbl, respectively on April 1, 2008 to a record high of US\$145/bbl and US\$146/bbl, respectively on July 3, 2008 as a result of strong oil demand combined with limited supply due to limited spare production capacity in OPEC countries as well as constant supply disruptions in key regions such as Russia, the Middle East and West Africa. This was followed by a sharp decrease in the oil prices to US\$31/bbl and US\$41/bbl on December 22, 2008, with the collapse of major financial institutions and a slowdown in economic activity throughout the globe.

Since then, oil prices have rebounded significantly due to oil being bought and held in storage and sold at higher forward prices, a rebound in global economic activity and China's continued growth in oil demand. As a result, WTI and Brent crude oil prices have recovered and stayed above US\$100/bbl in September 2014. Since the third quarter of 2014, as a result of weak demand growth in the global oil market coupled with a substantial increase of supply from North America shale and OPEC's decision to maintain its production volume, WTI and Brent crude oil prices have plunged to US\$50.09/bbl and US\$55.81/bbl, respectively, as of April 1, 2015.

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

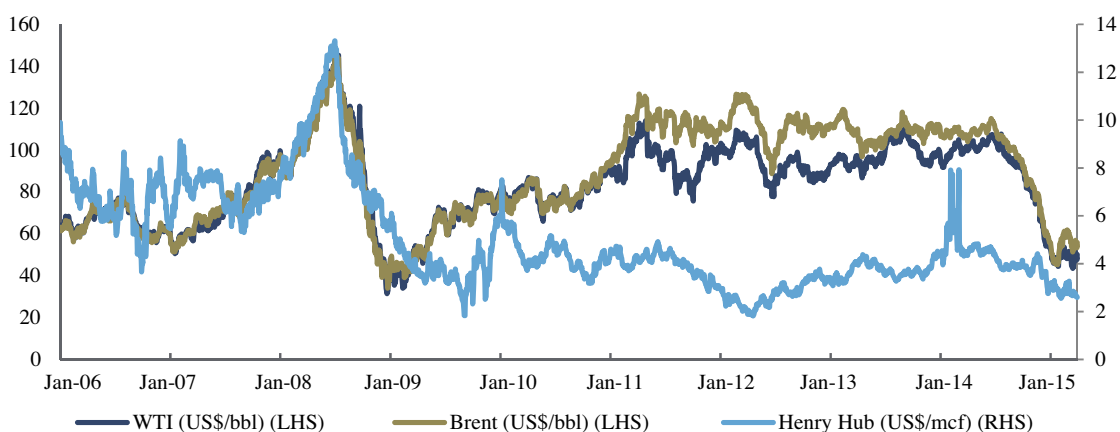
According to the International Energy Agency ("IEA"), crude oil price is expected to increase in the long term and reach US\$112/bbl in 2020 and US\$132/bbl in 2040, in real terms.

On the other hand, natural gas prices in certain regions such as the U.S. have witnessed a decoupling from oil prices. Prior to the global economic recession in 2010, natural gas prices were positively correlated with oil prices, evidenced by Henry Hub natural gas price peaking on July 2, 2008 at US\$13.46 per thousand cubic feet ("mcf"). Following the peak, Henry Hub natural gas prices fell sharply as the global recession began. As oil prices rebounded since 2009, Henry Hub natural gas prices continued to fall and decreased to US\$1.86/mcf on September 4, 2009. The decoupling of oil and natural gas price is largely due to the discovery of gas from previously

untapped unconventional gas resources such as the North America shale. However, more recently Henry Hub price declined to US\$2.60/mcf on April 1, 2015, which was mainly due to the lower oil price and weaker gas demand as a result of a relatively mild weather conditions in North America.

According to IEA, Henry Hub natural gas price will increase in the long term and reach US\$5.5/mcf in 2020 and US\$8.2/mcf in 2040 in real terms, as production gradually shifts to less productive and more expensive resources due to depletion of low-cost resources.

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



Source: Bloomberg.

Note: Commodity prices up to April 1, 2015.

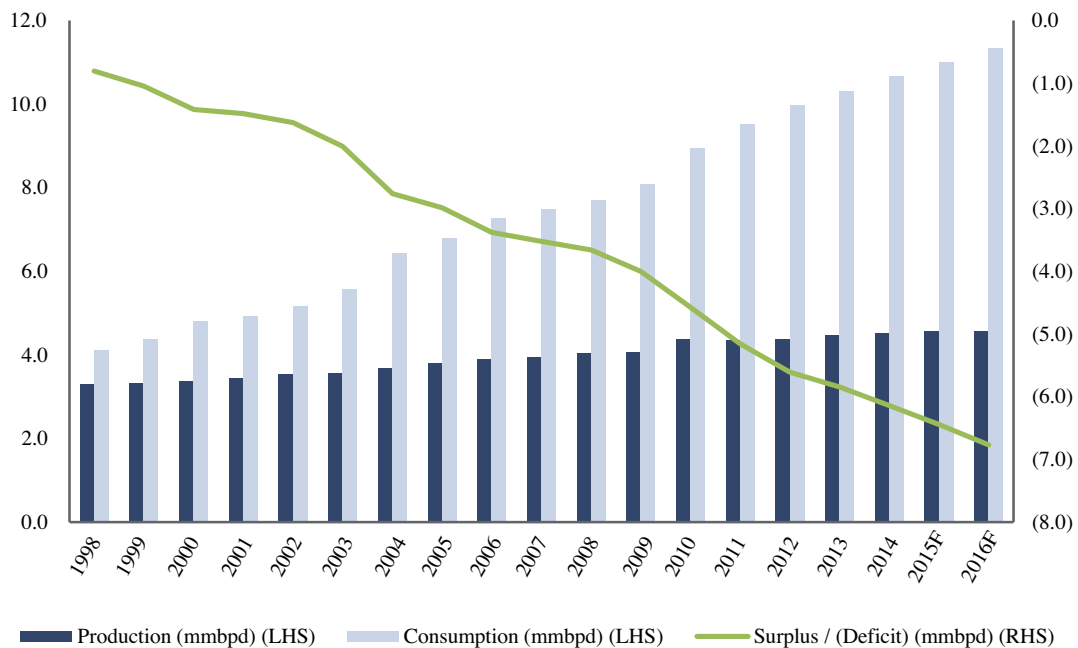
### Overview of the Chinese Oil and Gas Market

Despite increasing participation from independent oil companies, China’s oil and gas industry remains dominated by three key state-owned oil and gas companies: the Company, China National Petroleum Corporation (“CNPC”) and China National Offshore Oil Corporation (“CNOOC”). The Company is the leading integrated energy and chemical company with businesses across the entire oil and gas value chain. As of December 31, 2014, the Company is the largest refined oil and chemical product producer and supplier and the second largest oil and gas producer in China. CNPC is the largest among the three in terms of proved oil and gas reserves and production. Together with its listed subsidiary PetroChina, CNPC accounts for the bulk of China’s domestic oil and gas production. CNOOC, on the other hand, is the largest producer of China’s offshore crude oil and natural gas. Apart from the three major oil companies, Sinochem Corporation (“Sinochem”), which has a strong position in the oil trading business, has been expanding its upstream operations primarily through acquisitions of overseas oil and gas assets. However, Sinochem’s oil and gas reserves and production are still relatively small compared to the other three national oil companies.

## Oil and Gas Consumption and Production in China

Strong economic growth in the past three decades has transformed China into the world's largest energy consumer and largest net importer of oil. According to the U.S. Energy Information Administration (EIA), oil consumption in China increased from 6.4 million bpd in 2004 to 10.7 million bpd in 2014, representing a CAGR of 5.2%. In contrast, China's oil production only increased from 3.74 million bpd in 2004 to 4.5 million bpd in 2014, representing a CAGR of 2.1%. According to EIA Short-Term Energy Outlook in April 2015, China's oil consumption is estimated to reach 11.3 million bpd by 2016 and oil production will slightly increase to 4.6 million bpd by 2016.

**China Oil Supply and Demand**

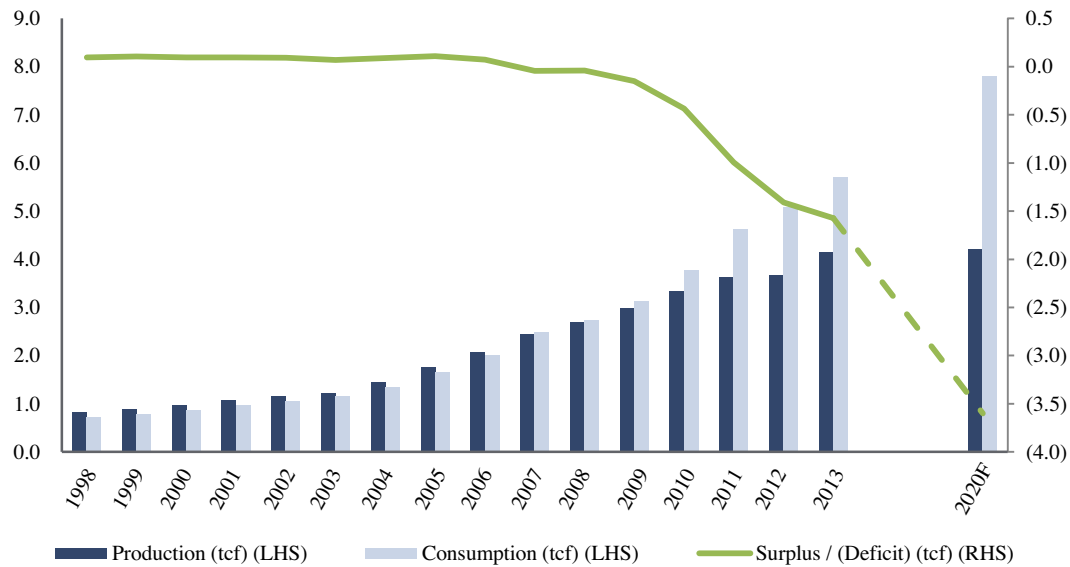


Source: U.S. Energy Information Administration, International Energy Statistics, EIA Short-Term Energy Outlook.

According to EIA, natural gas consumption in China has grown from 1.1 trillion cubic feet (tcf) in 2003 to 5.7 tcf in 2013, representing a CAGR of 17.4%. In contrast, natural gas production grew at a relatively slower pace, reaching 4.1 tcf from 1.2 tcf during the same period, representing a CAGR of 13.1%. EIA Short-Term Energy Outlook estimated China's natural gas production to reach 4.2 tcf by 2020 and natural gas consumption will rise to 7.8 tcf by 2020.

The increase in domestic production alone is not sufficient to meet demand and China has become a net importer of natural gas since 2007. The IEA expects China to be one of the fastest growing natural gas consumers and account for a quarter of global gas demand growth by 2035. Nevertheless, China is expected to continue to rely on imports to meet domestic demand in the near future.

**China Natural Gas Supply and Demand**



Source: U.S. Energy Information Administration, International Energy Statistics, EIA Short-Term Energy Outlook.

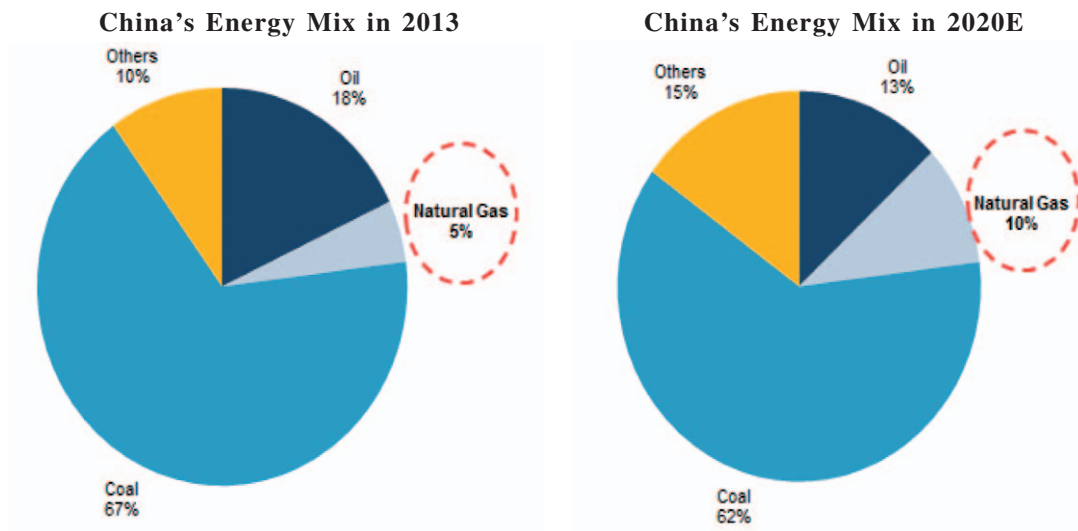
The rising demand for oil and gas in China, along with the declining production capacity of oil and the expected shortfall of domestic gas production, has resulted in a large and growing supply gap in China's domestic oil and gas market.

### Chinese Natural Gas Market Overview

Because of insufficient oil production capacity, growing concerns about environmental issues, and rising oil prices, China has been active in searching for alternative energy sources. Natural gas is the preferred choice as existing infrastructures, technology restrictions and scale limitation make most of the other choices unviable. In addition, the Chinese government has released policy guidelines to increase consumption of natural gas in order to diversify China's energy mix and reduce pollution. Based on the BP Review, natural gas only accounted for approximately 5.1% of China's energy consumption in 2013, which was much lower than the world average level of 23.7% in 2013. According to China's 12<sup>th</sup> Five-year Plan, this portion is expected to increase to at least 7% by 2015, and according to the State Council's Energy Development Strategy Plan (2014-2020), this proportion is expected to increase to at least 10% by 2020, with the continuous improvement of energy infrastructure.

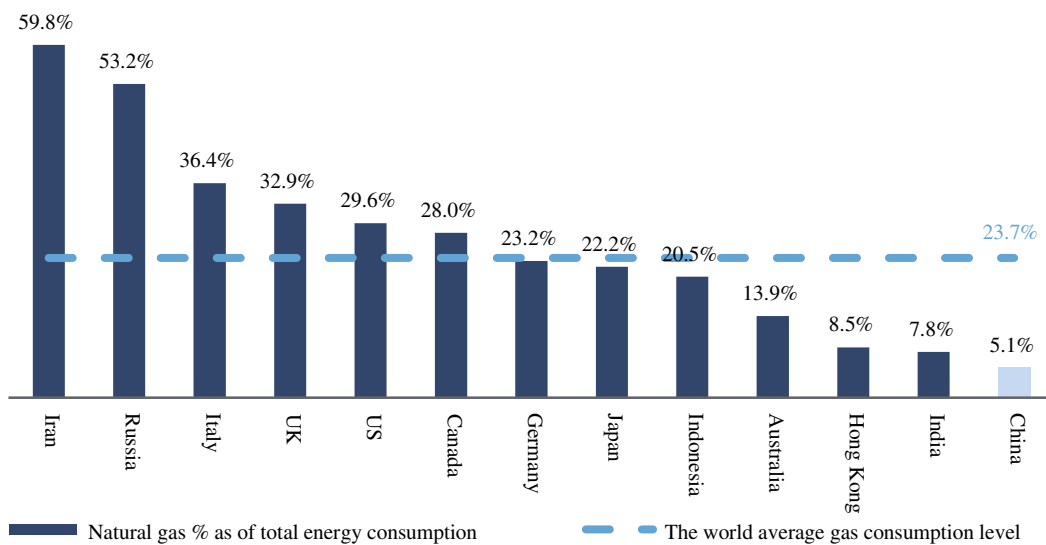
China is more resourceful in both conventional gas and unconventional gas (including coal bed methane and shale gas) than in oil. However, China's natural gas market is still in short supply and the gap between demand and supply is expected to broaden. To meet the increasing demand for natural gas, China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

### Change in China's Primary Energy Consumption Composition



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

### Comparison of Natural Gas Consumption Levels (2013)



Source: BP Statistical Review of World Energy June 2014.

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

Driven by environmental and efficiency concerns, the PRC government has been increasingly encouraging industrial and residential use of natural gas to meet primary energy and environmental protection needs. The PRC government has adopted a preferential value-added tax rate of 13% for natural gas sales as compared to a 17% value-added tax rate for crude oil production. In addition, the NDRC launched pilot reforms on natural gas pricing in Guangdong Province and Guangxi Zhuang Autonomous Region in December 2011, marking the PRC government's efforts to shift natural gas pricing toward a more market-oriented system. Under the pilot reforms, the prices of natural gas were pegged to the prices of alternative energies to better trace and reflect market demand and supplies, as well as guide reasonable distributions. On June 28, 2013, the NDRC lifted wellhead natural gas prices for non-residential users by 15%, from RMB 1.69 per cubic meter to RMB 1.95 per cubic meter, effective from July 10, 2013. On September 1, 2014, the NDRC applied a RMB 0.40 per cubic meter upward adjustment to regulated price ceilings for base gas across the country except Guangdong and Guangxi to close the gap between regulated base and incremental price ceilings. Further in late February 2015, the NDRC announced that effective from April 1, 2015, China's non-residential gas citygate price ceilings for incremental gas (additional consumption beyond 2012 level) will be lowered by RMB 0.44 per cubic meter, and that for base gas (2012 non-residential consumption) will be raised by RMB 0.04 per cubic meter. The latest non-residential gas price adjustment makes the end of the two-tier non-residential gas pricing system. In addition, the NDRC also announced that for direct-supply of natural gas to industrial end users, such as gas fired power generators, energy projects, large petrochemical projects, citygate price will no longer be subject to government set price ceilings, and can be negotiated directly by sellers and buyers starting April 1, 2015.

### **Global Refining Market Overview**

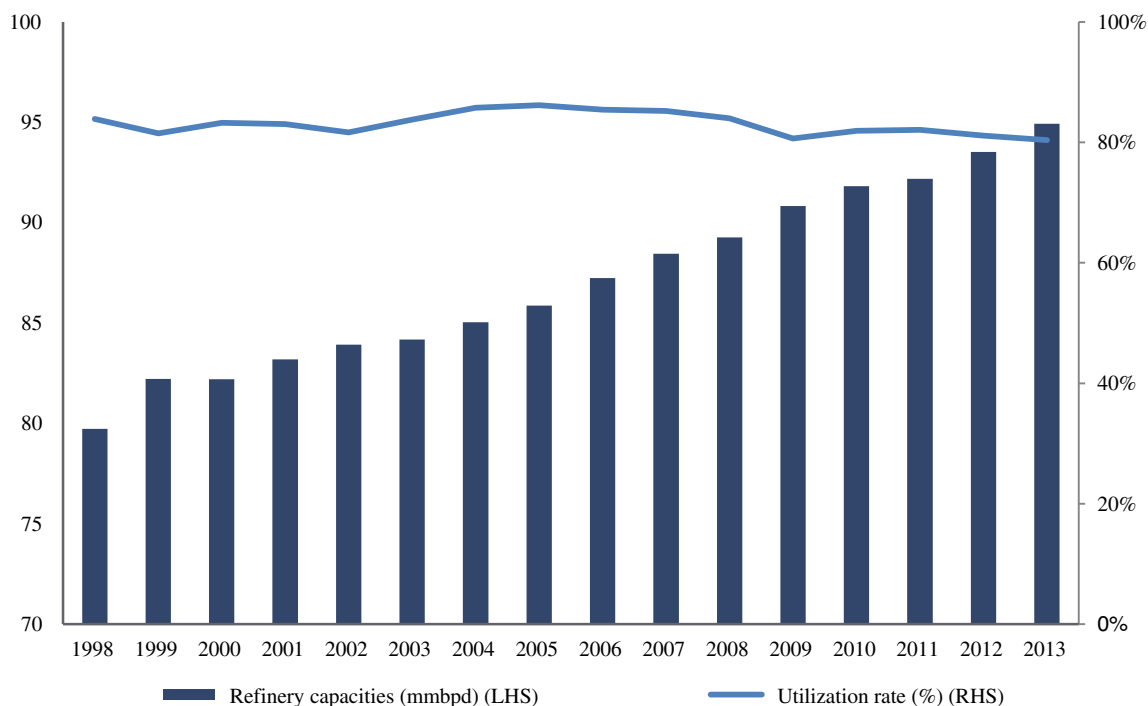
The global refining sector has been supported by the recovery of global economic growth and oil demand in the past two years. Increasing demand for refined oil products from non-OECD countries and regions such as China, India, the Middle East and Latin America is expected to continue driving global oil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

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

Global refining utilization rates were consistently above 85% from 2004 until the financial recession in 2008 as a result of decrease in oil demand. Although the rates had fallen again during the recent recession and have only shown a moderate recovery globally in 2010, Asia, where strong oil demand is seen, has proved to have a better resilience and faster recovery.

Refining margins have remained relatively steady since mid-2010 despite some volatility and peripheral concerns over the European economy. Margins in 2009 were hit particularly hard due to a slowdown in the global economy and overcapacity from overexpansion as refiners globally attempted to capitalize on previously wide light-heavy differentials. In Asia, refining margins were well supported by healthy product markets and relatively eased crude prices on expectations of improved supply, therefore remained stable during the second half of 2013 and early 2014.

### Global Refining Capacity and Utilization Rate



Source: BP Statistical Review of World Energy June 2014.

### Chinese Refining Market Overview

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

On the supply side, China’s refining capacity is expected to continue to outpace domestic demand growth, which would potentially reduce the country’s reliance on oil product import. According to the IEA, China’s crude distillation capacity will reach 13.2 million bpd in 2016, as several large projects are expected to come online.

China’s refining sector has undergone modernization and consolidation in recent years. Currently, most of the refining capacity in China is held by Sinopec and CNPC. In addition, both companies are having a number of major project commissions in the next few years. CNOOC has also entered the downstream arena recently and commissioned its first refinery in 2009 to process the

high-sulfur crudes from its Bohai Bay fields. Sinochem has also proposed a number of new refineries through potential partnerships with national oil companies from Kuwait and Saudi Arabia. In July 2014, Sinochem commissioned its new Quanzhou refinery, which is one of the key refining projects in the National Refining Plan during the 12th Five-Year Plan period.

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

The NDRC has the authority to adjust the sale prices of refined oil products in China based on market price fluctuations and macroeconomic conditions. In 2013, the NDRC adjusted the sale prices of gasoline and diesel 15 times to reflect the global market dynamics of crude oil prices. Previously, these prices in China were based on the crude oil benchmark prices of Brent, Dubai and Cinta. However, on March 26, 2013, the NDRC announced further steps to adjust the existing refined oil pricing mechanism. The adjustments to oil pricing mechanism include, among other things, (i) shortening of price reference period from 22 working days to 10 working days and lifting the 4% downward and upward fluctuation cap on benchmark crude oil prices; (ii) changing the composing types of benchmark crude oil in response to the changes taking place with respect to composition of imported crude oil and crude oil trading in the overseas market; and (iii) issuing additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustment upon the approval by the State Council, to regulate significant fluctuations of crude oil price.

### **Global Petrochemical Market Outlook**

Global demand for petrochemical products is expected to grow following the continued economic recovery, with Asia and the Middle East serving as the main driving force. Based on sustained strong economic growth, petrochemical markets in China, India and Southeast Asia are to see a demand surge in the next five years, and Asia is expected to contribute the majority of the total incremental global petrochemical demand. China and the Middle East are expected to account for a significant portion of capacity addition through 2016. Due to close proximity to vast hydrocarbon resources, Middle East ethylene producers will continue to benefit from a substantial raw material cost advantage.

The rapid commercialization of unconventional gas resources is expected to reduce the cost of petrochemical feedstock, which typically accounts for over 80% of the total operating expenses.

### **Chinese Petrochemical Market Overview**

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

## BUSINESS

### Overview

#### *The Company*

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of revenue, according to the “2014 Fortune Global 500.” We are the largest refined oil producer in the world in terms of crude oil throughput in 2014. We are the second largest oil and gas producer in China in terms of production volume in 2014. We are also the largest distributor of refined oil products in China measured by sales volume in 2014, and the number of our service stations ranked first in China and second in the world as of December 31, 2014. We ranked first in China in terms of production volume of major petrochemical products in 2014. We have been named in the “Fortune Global 500” since 2003 and ranked first among Chinese companies and third in the “2014 Fortune Global 500” in terms of revenue.

We were established in July 1998 on the basis of the former China Petrochemical Corporation. We are a state-authorized and invested entity and one of China’s key SOEs under the supervision of the SASAC. The SASAC has recognized us as one of the 23 “China’s Backbone SOEs.”

We conduct the following key businesses:

- **Exploration and Production:** We are China’s second largest oil and gas producer based on production volume in 2014. In recent years, we have successfully expanded our exploration and production segment by leveraging on domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. As of December 31, 2014, we had 6,270 million boe of proved reserves of crude oil and natural gas, including 4,590 million barrels of crude oil and 10,079 bcf of natural gas. Our reserve replacement ratio of crude oil and natural gas amounted to approximately 126%, 149% and 89% in 2012, 2013 and 2014, respectively. In 2014, our production of crude oil and natural gas was 729 million boe. Our overseas exploration and production activities have expanded to 27 countries in six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and the Asia-Pacific. In 2014, our overseas crude oil and natural gas production was 299 million boe, accounting for 41.0% of our total crude oil and natural gas production. We are also exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide a more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, oil sands, LNG and other unconventional energies.
- **Refining:** We are the largest refined oil producer in the world in terms of crude oil throughput in 2014. In 2014, we processed 237 million tonnes of crude oil, representing approximately 47.1% of the total crude oil processed in China during the year. We operate 35 refineries in China, including 13 with refining capacity of 10 million tonnes or more per annum, which are located in China’s eastern and southeastern regions with more developed economies, higher population densities and larger numbers of oil product consumers. We have successfully expanded our refining operations overseas.

- Chemicals:** We are the largest producer of major petrochemical products in China and one of the largest in the world in terms of production volume in 2014. We believe we have greater economies of scale in most of our production facilities and more extensive distribution channels in China than our competitors. We produce a wide range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fiber, synthetic rubbers and synthetic ammonia and urea. In 2014, we produced 10.7 million tonnes of ethylene, the primary feedstock for our chemical production. Our chemical products are widely distributed throughout China and used in various industries including textiles, agriculture, construction, shoes, housewares, packaging, electronic appliances and automobiles.
- Marketing and Distribution:** We are the largest distributor of refined oil products in China measured by sales volume in 2014. In 2014, our domestic market share with respect to the sales of refined oil products was 63.6% as to major refined oil products, which include gasoline, diesel and kerosene (including jet fuel). We sell most of our major refined oil products through retail service stations that operate under the “Sinopec” brand. Our strong retail network provides extensive geographic coverage of retail sales across China. As of December 31, 2014, we had 30,551 service stations, representing the largest oil products distribution network in China. The retail sales volume of gasoline and diesel through these service stations accounted for approximately 69.0% of our major refined oil products sales volume in China for 2014. As of December 31, 2014, we had more than 1,000 service stations in each of 13 provinces, which are all located in China’s eastern and southern regions. These 13 provinces accounted for 68% of China’s GDP, 64% of China’s population, 57% of China’s total length of expressway and 69% of China’s total length of highway in 2013. As of December 31, 2014, we had 10,807 kilometers of refined oil pipelines, and 16.2 million cubic meters of refined oil product storage capacity. In 2014, we sold 189 million tonnes of major refined oil products. We have developed non-fuel businesses for our full-service stations to transform our network of traditional service stations into a comprehensive one-stop multifunctional integrated service platform that combines “fueling, shopping, dining and car services”. The number of our Easy Joy convenience stores which are located in our service stations reached approximately 23,700 as of December 31, 2014, providing more than 70,000 products in more than 200 product categories.
- Oil and Petrochemical Engineering Technical Services:** We believe we are one of the largest refining and chemical engineering technical service providers in China measured by revenue, and we believe we have the most comprehensive capability in the design and construction of refineries and ethylene production facilities among the industry players in China. Equipped with our in-house technologies and patents, we are a technological leader in refining and chemical engineering design both in China and overseas. In 2014, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US\$1.9 billion and US\$1.1 billion, respectively. In addition, our oil engineering technical service teams have provided services in 43 countries and regions in relation to more than 500 oil engineering technical service contracts. In 2014, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US\$3.0 billion and US\$2.5 billion, respectively.
- Others:** We also engage in international trade, research and development and other businesses, which are collectively referred to as our “Others” segment. We had a total crude oil trade volume of 264.3 million tonnes in 2014.

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

	<b>Year Ended December 31, 2014</b>	
	<b>RMB (in millions)</b>	<b>Percentage<sup>(2)</sup></b>
<b>Total Operating Revenues<sup>(1)</sup>:</b>		
Exploration and Production .....	296,527	5.9%
Refining .....	1,273,095	25.2%
Chemicals .....	473,229	9.4%
Marketing and Distribution .....	1,476,605	29.2%
Oil & Petrochemical Engineering Technical Services .....	151,794	3.0%
Others .....	1,380,859	27.3%
Elimination of inter-segment .....	<u>(2,162,175)</u>	
<b>Total</b> .....	<u><u>2,889,934</u></u>	

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

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

### ***Sinopec Corp.***

Sinopec Corp. is an integral and significant part of the Company. It was established as a joint stock company with limited liability under the Company Law of the PRC on February 25, 2000 as part of a restructuring in which the Company transferred to Sinopec Corp. the majority of our production operations. Sinopec Corp. mainly conducts domestic oil and gas exploration, development and production; crude oil refining; the marketing and distribution of refined oil products; and the production and sales of petrochemical products. Sinopec Corp. is the first company in China to have obtained a listing of its shares on four stock exchanges. Its H shares and American Depositary Shares representing H shares were simultaneously listed on the SEHK (stock code: 0386), the New York Stock Exchange (stock code: SNP) and the London Stock Exchange (stock code: SNP) on October 18, 2000; and its A shares were listed on the Shanghai Stock Exchange (stock code: 600028) on August 8, 2001. Sinopec Corp. was awarded “Best Managed Company” by FinanceAsia in 2011, “Best Managed Company in China” by Euromoney in 2012, “Global Compact Best China Practice Award” by UN Global Compact Network in 2012, and “Crisis Management and CRS Gold Awards” by Asia-Pacific SABRE Awards in 2013, “Shale Oil and Gas International Pioneer” by International Gas Union and American Gas Association in 2014, as well as “Global Competitive Brands — Top 10 from China” by the International Data Group for five consecutive years. As of December 31, 2014, the Company directly and indirectly owned 72.94% of the share capital of Sinopec Corp. Sinopec Corp. accounted for approximately 56.0% of the Company’s total assets as of December 31, 2014 and 89.6% of the Company’s revenue for the year ended December 31, 2014, according to the audited consolidated financial statements of Sinopec Corp. and of the Company prepared in accordance with PRC GAAP. For more information of Sinopec Corp., see Sinopec Corp.’s periodic filings with the SEC on [www.sec.gov](http://www.sec.gov). Sinopec Corp.’s periodic filings do not constitute part of this offering memorandum.

### ***Sinopec Engineering***

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

### ***Sinopec Oilfield Service***

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

### ***Sinopec Lubricant***

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

### ***Sinopec Catalyst***

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

## **Competitive Strengths**

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

We are the largest integrated petroleum and petrochemical company in China and one of the largest in the world in terms of operating revenue, according to the “2014 Fortune Global 500.” In 2014, we reported an operating revenue of RMB 2.89 trillion, which was the highest among all enterprises in China and ranked third among Fortune Global 500 companies.

We maintain a leading position in China's petroleum and petrochemical industry. In 2014, we accounted for approximately 47.1% of crude oil processed, 63.6% of major refined oil products sales volume and 63.1% of ethylene production in China.

We play a broad and strategically important role in facilitating China's overall economic growth and development, and we benefit from strong government support. We are 100% owned and controlled by the SASAC and operate under the supervision of the SASAC. The PRC government

has designated us to establish China's National Strategic Crude Oil Storage. The energy industry we operate in is strategically important to China's economic growth, and we have important responsibilities in implementing national energy policies and securing refined oil products supplies necessary for China's continued economic growth.

In 2014, our operating revenue accounted for approximately 4.5% of China's gross domestic product ("GDP"). Our 2014 consolidated tax payments in China accounted for approximately 2.4% of China's total government fiscal income in 2014.

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

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

We are the second largest oil and gas producer in China in terms of 2014 production volume. In 2014, we reported total proved oil and gas reserves of 6,270 million boe and total oil and gas production of 729 million boe.

We are the largest refined oil products producer in the world, with a crude oil processing capacity of 295 million tonnes as of December 31, 2014. We processed 237 million tonnes of crude oil in 2014.

We have established a nationwide refined oil products distribution network comprising more than 30,000 service stations as of December 31, 2014, representing the largest station network in China and the second largest globally. In addition, we are the largest distributor of major refined oil products and various other refined oil products in China by volume.

We are the largest chemical products producer in China in terms of 2014 production volume, with ethylene, polypropylene, polyethylene and synthetic rubber production capacity and output that place us among the top global petrochemical companies. Our total ethylene production in 2014 was 10.7 million tonnes, representing approximately 63.1% of total domestic production.

We are one of the largest providers of refining and petrochemical engineering technical services in China measured by revenue in 2014. We leverage our refinery and ethylene unit design and construction capabilities and portfolio of patented technologies to complete large-scale refining and petrochemical construction projects. We are committed to becoming a best-in-class global technology and service provider.

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

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

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

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

In the refining and chemicals segments, our significant advantages include:

- **Scale.** We had an annual crude oil processing capacity of 295 million tonnes as of December 31, 2014. During 2014, we processed 237 million tonnes of crude oil. We have consistently accounted for approximately 50% of oil processed in China in recent years. Our aggregate production of gasoline, diesel, kerosene (including jet fuel) and other refined oil products, as well as ethylene and some other chemical products, is the largest in China by volume. We own a total of 13 ten-million-tonne refineries and 10 integrated refinery and petrochemical production facilities.
- **Locations.** Most of our refineries and petrochemical plants are located in the eastern and southern regions of China, particularly in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta regions, where higher population levels and higher average family income support greater consumption of refined oil products. Our refineries are located in strategic locations close to our end-users and port facilities, thus reducing transportation costs as compared to our competitors.
- **Advanced Technologies.** We have developed the capability to construct large-scale refining and petrochemical facilities using our proprietary technologies. We have also been increasingly seeking to develop our own proprietary high-sulfur, high-acid heavy crude oil processing techniques so that we can be adaptable to a wider selection of feedstock for our refineries and improve the economics of our refining business. Thanks to the advanced technologies, our refined oil products are of high standards. All the gasoline and diesel we produce and distribute meet the National IV standard, and in certain provinces and cities, the gasoline and diesel we produce and distribute meet the National V standard. We believe our advances in this area represent the highest level of technology in use in this industry segment in China.

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

- **Broad Network.** We operate the largest retail distribution network in China as of December 31, 2014, comprising a network of more than 30,000 service stations nationwide. The number of our Easy Joy convenience stores reached approximately 23,700 as of December 31, 2014, providing more than 70,000 products in more than 200 product categories.
- **Strategic Locations.** A large percentage of our service stations are located in the eastern and southern parts of China where economies are more developed and vehicle ownership is higher. We also own a large number of stations in locations near expressway access points and transportation hubs with high transaction volume. Because of the strategic locations of our service stations, we achieved an average sales volume of 3,858 tonnes per station in 2014, increasing from 3,498 and 3,707 tonnes per station, respectively, in 2012 and 2013.

- ***Robust Distribution Infrastructure.*** We operate a complex and far reaching refined oil products transmission and storage infrastructure network. Our refined oil pipelines in China connect 18 provinces and municipalities with a total length of 10,807 kilometers. We also own significant refined oil product storage facilities in China with current total capacity of approximately 16.2 million cubic meters.
- ***Well-known Brands.*** Our “Sinopec” brand was ranked the sixteenth most valuable brand in China in 2014, according to World Brand Lab. We also own and promote a range of well-recognized brands for our products and services. Our “Great Wall” lubricant oil brand, for example, represents and conveys our industry-leading quality and technology to consumers and has been designated as the official lubricant oil for China’s aerospace programs. According to World Brand Lab, in 2014, our “Great Wall” brand ranked the 87th among the most valuable 500 brands in China.

***Our high quality exploration and production business improves our overall profitability and achieves better balance among our complementary portfolios of assets.***

We have established an exploration and production portfolio of high quality assets in China and overseas, which increases our available energy resources and enhances our complementary asset and business mix.

With respect to domestic resources, we have stabilized and are gradually seeking to expand our domestic production. As of December 31, 2014, we held domestic oil and gas reserves totaling 3,819 million boe. In 2014, we recorded 430 million boe of domestic crude oil and gas production, representing a 2.1% increase over 2013.

We are also focusing on increasing our natural gas reserves and production. Our domestic natural gas production in 2014 increased by 8.0% from 2013. Some of our major gas fields such as Puguang experienced strong performance in 2014. We also reported a range of breakthroughs in domestic oil and gas exploration in 2014. Further, various recent hydrocarbon discoveries in marine carbonates demonstrated additional attractive reserves potential.

We are actively seeking to increase our overseas oil and gas resources and production through exploration, project development, operation optimization and acquisitions. Our global footprint in respect of oil and gas assets and potential oil and gas resources now extends across 27 countries in the major oil regions of Africa, Asia-Pacific, Russia-Central Asia, Middle East and North and South America. As of December 31, 2014, our overseas oil and gas reserves (calculated on the basis of our equity percentage of ownership) was approximately 2,451 million boe, representing a decrease of 1.7% from 2013. Our 2014 overseas oil and gas production increased 5.7% over 2013 to a total of 299 million boe. As of December 31, 2014, our overseas reserves represented 39.1% of our total reserves, and our overseas production in 2014 accounted for 41.0% of our total production.

We focus on developing our upstream resources and businesses in a manner that will support our future growth objectives, provide a more balanced mix of assets, reduce our operational risks and enhance our overall profitability. As of December 31, 2014, our exploration and production assets accounted for approximately 38.6% of our total consolidated assets (before inter-segment elimination) and we anticipate that this percentage will increase over time. By continuing to expand our upstream resource base, and in particular our overseas resources, we believe we will optimize our existing asset and business mix and establish more reliable and sustainable supplies of crude oil and gas for use in our refining and distribution operations.

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

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

- ***Debt and Leverage Management.*** As our business has expanded, we have increased our focus on managing leverage, including setting appropriate target leverage ratios and enhancing our debt maturities profile and currencies structure to reduce risk and diversify our financing channels.
- ***Treasury Management.*** We operate a highly-centralized treasury management system which uses centrally controlled collections and payments and internal closed-end settlements and funding allocations with a goal to reducing our overall funding costs and improving our use of capital.
- ***Risk Management and Internal Controls.*** We have established comprehensive risk management and internal control systems. The Risk Management Group and the Risk Management Office at the group level work closely with the various business units to enhance real-time risk identification, measurement, supervision and prevention in operations. Our internal control system extends across and through both company structures and business lines.

We believe our sustained attention to our financial policies and initiatives will help us to reduce our potential risks and maintain a prudent and stable financial profile as we expand globally. We maintained a total debt to total assets ratio of 27.6% and a total debt to total capitalization ratio of 39.3% as of December 31, 2014. For the calculation of total debt, see note (3) to “Selected Financial Information.”

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

Our Chairman and President were appointed by the State Council, the highest level administrative body in the PRC government, and our other senior executives were also appointed through a rigorous selection process. Our senior management team consists of highly experienced and widely respected professionals with strong experience in the energy and chemical industries and extensive experience in exploration and production, refining, distribution and human resources management. Our Chairman, Mr. Fu Chengyu, was awarded the “Best Oil Executive Globally” in 2012 by Energy Intelligence Group, the “Outstanding Leadership for Global South-South Cooperation” by the United Nations in 2013, and “Asia CEO of the Year” by Platts Top 250 Global Energy Company Rankings in 2014. Our major subsidiary Sinopec Corp. is a public company with its shares listed on the stock exchanges in Hong Kong, London, New York and Shanghai. It is the first Chinese company to have obtained a listing of its shares on four stock exchanges and, as a result, is subject to high international standards of corporate governance.

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

## **Strategy**

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

### ***Continue to increase our oil and gas reserve base.***

We have been increasing our investment in the exploration and production segment and will continue to make such investments in order to increase our total reserve base and production. Domestically, we will focus on the activities that will (i) maintain our significant businesses in eastern China, (ii) enlarge our presence and assets in western China, (iii) accelerate our growth in southern China and the natural gas business and (iv) emphasize research and development of technology to strengthen our core competence. Internationally, we will expand and strengthen our presence, especially in the established six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific. We will grow our reserve and production through prudent and selective acquisitions, increase our exploration activities in the high potential geological areas, and increase our oil and gas recovery rate leveraging enhanced oil recovery technologies as well as invest to accelerate the development of our reserve base. We will continue to cooperate with reputable partners to accumulate our international operating experience and mitigate operational risks.

### ***Continue to reinforce our advantages, strengthen our dominant position in the downstream businesses and enhance profitability.***

As China's population and economic development continue to grow and spread westward, we plan to gradually expand our oil refining business into central China by building new refineries. We will continue to develop technology to lower our costs and increase our oil refining output rate. We will continue to improve the operational and marketing channels for our oil products, consolidate the development of the end-market for our products and enhance end-market penetration by opening more service stations. We will actively explore new business models for our service stations and further develop our non-fuel businesses such as convenience stores, branded credit cards for use at our service stations and e-commerce devices. In the chemicals and materials segment, we will continue to launch high value-added, high performance industrial chemical products and materials, optimize our feedstock structure, enhance the differentiation of chemical products and materials and focus our product development on consumer needs, all with a view of continuing to provide our large client base with industry-leading materials and services. Through these policies we seek to further increase our market share, increase the overall scale of our downstream business and improve profitability.

### ***Reinforce the advantages of our integrated business model.***

We intend to reinforce the advantages that come from being an integrated petroleum and petrochemical company. We will balance the development across the upstream, midstream and downstream businesses. With our downstream business already in a dominant position in China, we will accelerate the development of our upstream business to reduce the reliance on crude oil supply from third parties. We will optimize resource allocation in different segments, regions and subsidiaries to maximize returns. Since we have a long value chain from oil and gas production, refining processing, further down to base chemical and specialty chemical production and marketing and distribution of refined oil products, we will selectively increase or decrease the

production of certain products according to market conditions and dynamics. We will continue to grow our oil and petrochemical engineering technical services segment as a separate business and at the same time benefit from the synergies resulted from integrated technological advancement to support our upstream and downstream production businesses.

***Increase the scale and scope of our international operations and build a global Sinopec brand.***

Leveraging an established international presence, we will continue to develop our international operations across our integrated value chain. For the exploration and production segment, we already established six strategic international regions and will further expand our footprint through prudent and selective acquisitions to increase our reserve base and production. For the refining and downstream businesses, we may also consider participating in the construction of new projects or acquiring high-quality assets in strategic locations that can benefit our business strategically and financially. In January 2012, we signed a joint venture agreement with Saudi Aramco, the national oil company of Saudi Arabia, to complete the construction of and operate a full-conversion refinery in Yanbu on the west coast of the Kingdom of Saudi Arabia. The joint venture commenced production in 2014. At the same time, we plan to expand our engineering and professional services provided in overseas markets to be able to compete successfully with the world's leading providers of engineering and professional services. Such expansion will include developing and implementing international management concepts and systems that meet international standards and attracting talented foreign employees. We are in the process of and will continue to build a core staff team that has extensive experience in international operations. All of these programs and efforts will contribute to realizing our strategy of establishing Sinopec as a global brand.

***Differentiate on product, market and service to transform our company into an innovation-oriented and service-based company, and to expand our market coverage and improve profitability.***

*Product differentiation*

Leveraging on our well-established base chemical production facilities, we will expand our value chain to the specialty chemical and materials segment, and gradually shift our industry structure from “petroleum and chemicals” to “energy and materials.” We will focus on developing high value-added products, where technical advancement and product differentiation are the core competency. We believe our proprietary technologies combined with our strong research and development capabilities will support us to implement such a strategy.

*Market differentiation*

Taking advantage of our extensive distribution and marketing network, we will be selectively developing the market segments where there are strong market supply and demand dynamics and potentially attractive margins. For example, we have established operating units to develop and sell high-quality lubricant oil and vessel lubricant because of high demand for and limited supply of such products in China.

### *Service differentiation*

In addition to our advantages of scale and network coverage in the retail market in China, we aim to further diversify the types of our services to benefit our customers with services that are differentiated from our competitors, and shift the focus of our value creation model from manufacturing to innovation and services. Our non-fuel service businesses, such as convenience stores and fast-food chain restaurants, have achieved significant growth in the past few years. We plan to continue to grow and improve our performance in this segment.

### ***Emphasize low-carbon consumption and sustainable development.***

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

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

### **Recent Developments**

In April 2014, we and China Huadian Corporation entered into an agreement to purchase a 15% equity interest in the North Montney Joint Venture and the Pacific NorthWest LNG project from Petroliam Nasional Berhad, a Malaysia's government-owned oil and gas company ("PETRONAS"). The acquisition was completed in July 2014. After the acquisition, we own a 10% equity interest in the project, and PETRONAS and China Huadian Corporation own 62% and 5% equity interests, respectively, in the project. The Pacific NorthWest LNG project, located on Canada's west coast near Prince Rupert, British Columbia, is a two-train, around 12 million tonnes per year liquefaction complex that is expected to come online by 2020. Based on our equity interest in the project, we have agreed to offtake around 1.2 million tonnes of LNG per year from the project for a 20-year term, and through a heads of agreement with PETRONAS, we have agreed to offtake another 3.0 million tonnes of LNG per year from the project for a 20-year term.

On February 19, 2014, the board of directors of Sinopec Corp. unanimously approved a proposal to restructure Sinopec Corp.'s marketing and distribution business segment by selling up to 30% of the segment's ownership to social and private investors. The proposed restructuring reflects a part of the PRC government-driven reforms to introduce more private investments in state-owned enterprises. Valuation of the marketing and distribution business segment was determined based on its audited financial statements and other factors. By April 2014, Sinopec Corp. had injected its assets in the marketing and distribution segment into Sinopec Marketing, a wholly-owned subsidiary of Sinopec Corp. On September 12, 2014, Sinopec Marketing entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors agreed to subscribe for certain equity interest in Sinopec Marketing. As of March 6, 2015, the 25

investors had made an aggregate capital contribution of RMB105.04 billion, representing 29.58% of the equity interest in Sinopec Marketing. Sinopec Corp. will comply with appropriate approval and disclosure requirements under applicable law and stock exchange listing rules with respect to any development of the proposed restructuring.

In December 2014, pursuant to a series of agreements entered into between the Company, Sinopec Corp. and Sinopec Yizheng Chemical Fiber (“Yizheng”), Yizheng transferred all of its chemical fiber business to Sinopec Corp., and the Company injected all of its petroleum engineering business into Yizheng. In March 2015, Yizheng changed its name to Sinopec Oilfield Service. On March 3, 2015, Sinopec Oilfield Service raised approximately RMB 6 billion in an issuance of new A-shares to non-public investors.

## **Exploration and Production**

### *Overview*

We are China’s second largest oil and gas producer based on production volumes in 2014. In recent years, we have successfully expanded our exploration and production segment by leveraging our domestic and overseas resources to achieve effective control and replacement of significant oil and gas reserves. Globally, we had 6,270 million boe of proved reserves of crude oil and natural gas, including 4,590 million barrels of crude oil and 10,079 bcf of natural gas as of December 31, 2014. In 2014, our production of crude oil and natural gas was 729 million boe.

We have implemented a clear strategy with respect to our domestic resources. We have been maintaining a stable output from our oil and gas fields in the eastern region, expanding production from western areas, accelerating development of natural gas in the southern region, advancing offshore exploration and production and achieving breakthroughs in the development of unconventional resources such as coal-bed methane, shale oil and gas. We have been striving to utilize advanced technology to further develop our upstream business and maintain a strong reserve replacement ratio. In China, we had 3,819 million boe of proved reserves of crude oil and natural gas, including 2,700 million barrels of crude oil and 6,715 bcf of natural gas as of December 31, 2014.

Our overseas exploration and production activities have expanded to 27 countries in six international strategic oil and gas regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific. In 2014, our overseas crude oil and gas production was 299 million boe, accounting for 41.0% of our total crude oil and gas production. As of December 31, 2014, our overseas proved crude oil and natural gas reserves amounted to 2,451 million boe, accounting for 39.1% of our total crude oil and natural gas reserves.

### ***Exploration and Development Activities***

During the years ended December 31, 2012, 2013 and 2014, we made progress with our key exploration and development projects in Shengli and Tahe, and our Songnan gas field started production. Our Sichuan-to-East China gas project commenced formal production. We had new breakthroughs in our exploration of northern rim of the Junggar Basin, western Sichuan Basin trough, north slope of Central Tarim, new area of South Songhuajiang, Eastern Hainan Province and the South Sea area. We made a number of technological breakthroughs and achieved satisfactory trial development results in our exploration of the Fuling marine-facies shale gas field, laying a solid foundation for our shale gas development. We made two-dimensional seismic exploration of 5,635 kilometers, three-dimensional seismic exploration of 8,825 square kilometers, and drill footage of 1,489 kilometers in 2014.

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

We significantly expanded our exploration and development activities overseas. In March 2012, we completed our acquisition of 30% of the share capital of the Brazilian division of Galp Energia SGPS SA (“GALP”), Portugal’s largest oil company for a consideration of approximately US\$5.2 billion. In April 2012, we acquired one third interest in Devon Energy Corporation (“Devon”)’s certain shale oil and gas properties in the United States for approximately US\$2.4 billion. In July 2012, we purchased 15% equity interest in APLNG of Australia for US\$2.1 billion and increased our ownership in APLNG to 25%. APLNG operates one of the largest CSG and LNG integrated projects in Australia. In December 2012, we acquired 49% equity interest of Talisman UK from Talisman Energy Inc. for US\$1.5 billion. In June 2013, we acquired a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US\$1 billion from Chesapeake Energy. In November 2013, we acquired a 33.3% stake in Apache’s oil and gas business in Egypt, for US\$3.1 billion. In February 2014, we purchased Marathon Oil Corp.’s 10% equity interest in Angola’s offshore deep water Block 31 for US\$1.55 billion, after which our stake in Block 31 increased to 15%. In July 2014, we acquired from PETRONAS a 10% equity interest in the Pacific NorthWest LNG project located on Canada’s west coast near Prince Rupert, British Columbia. In 2014, we discovered a number of key oil-bearing structures in Brazil, Andes and Egypt, and made major breakthroughs in our exploration wells in Kazakhstan, Russia and Argentina. The annual success rate for our overseas exploration wells and appraisal wells was 55.7% and 70.2%, respectively, in 2014.

### ***Oil and Natural Gas Reserves***

As of December 31, 2014, our estimated proved reserves of crude oil and natural gas were 6,270 million boe, including 4,590 million barrels of crude oil and 10,079 billion cubic feet of natural gas, representing a decrease of 1.2% from December 31, 2013. Our estimated proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. Our reserve replacement ratio of crude oil and natural gas amounted to approximately 126%, 149% and 89% in 2012, 2013 and 2014, respectively.

The following table sets forth our estimated proved reserves of crude oil and natural gas as of December 31, 2012, 2013 and 2014, respectively.

	<u>Crude Oil</u>	<u>Natural Gas</u>	<u>Combined</u>
	(million barrels)	(billion cubic feet)	(million boe)
<b>Proved reserves</b>			
As of December 31, 2012			
<b>Total</b> .....	4,615	8,316	6,001
PRC .....	2,771	6,730	3,893
Overseas .....	1,844	1,586	2,108
As of December 31, 2013			
<b>Total</b> .....	4,820	9,165	6,347
PRC .....	2,773	6,493	3,855
Overseas .....	2,047	2,672	2,492
As of December 31, 2014			
<b>Total</b> .....	4,590	10,079	6,270
PRC .....	2,700	6,715	3,819
Overseas .....	1,890	3,364	2,451

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

### ***Oil and Gas Fields***

#### ***PRC***

We currently operate 16 oil and gas operating units managing our oil and gas fields across China, each of which consists of many oil and gas producing blocks. As of December 31, 2014, the total acreage of our oil and gas producing fields and blocks in China was 10,580 square kilometers, including 8,383 square kilometers of developed acreage, all of which were net developed acreage; and 2,197 square kilometers of gross undeveloped acreage, all of which were net undeveloped acreage.

Shengli production field is our most important crude oil production field in China. It consists of 70 producing blocks of various sizes extending over an area of 2,564 square kilometers in northern Shandong province, all of which are our net developed acreage. Most of Shengli’s blocks are located in the Jiyang trough with various oil producing layers. In 2014, Shengli production field produced 204 million barrels of crude oil and 17.7 billion cubic feet of natural gas, with an average daily production of 568 thousand boe, accounting for approximately 28.4% of our total crude oil and natural gas production for the year.

Northwest oilfield is our second largest oilfield, which has an output exceeding 63 million boe in 2014. It is the first large paleozoic marine oilfields with up to hundred-million tonnes and one of the top ten onshore fields in China.

Puguang gas field is the largest and richest unitized marine-based carbonate gas field discovered in China. It is also the source for the nation’s gas transmission project from Sichuan to the eastern regions. Its proved developed gas reserves were 2.7 trillion cubic feet as of December 31, 2014. Its production for 2014 was 278 billion cubic feet.

Yuanba gas field is the deepest buried marine-based gas field in China. Its purified gas production capacity was 60.0 billion cubic feet per year. In 2014, we commenced construction of LNG wharfs in Shandong, Guangxi and Tianjin, each with an annual capacity of 3 million tonnes. These projects, together with the supporting gas pipelines, are expected to be completed around 2016.

### *Overseas*

Our overseas oil and gas production fields and blocks are located in 27 countries in six international regions, including Central Asia-Russia, Africa, North America, South America, the Middle East and Asia-Pacific.

Through our 47.6% equity interest in OAO Udmurt Oil Company, we have successfully entered the Russia oil and gas exploration market, realizing continuous growth in reserves and output.

Our presence in Africa includes the conventional oil and gas assets in Nigeria and Gabon of Addax Petroleum Corporation, one of our wholly owned subsidiaries, and our interest in Angola Blocks 15, 18, 31 and 32, all of which are mature deepwater oil and gas blocks in Angola, and 33.3% interests in Apache's Egypt assets.

We have acquired unconventional oil and gas assets in North America. We have a 9.03% equity interest in Syncrude Canada Ltd., which operates the Syncrude project in Canada, the world's largest oil sands production project. Through our wholly owned subsidiary, Daylight Energy Ltd., we have gained diversified unconventional oil and gas assets in Western Canada. In the United States, we have a 33.3% interest in Devon's certain shale oil and gas properties, and a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma, with the other 50% owned by Chesapeake Energy.

We have a strong presence in South America. We have a 50% equity interest in Mansarovar Energy Colombia Ltd., which owns a 50% interest in Nare Contract Block and a 100% interest in Velasquez Contract Block, both of which are located in Colombia. In Brazil, we have formed an alliance with Repsol to jointly develop the projects of Repsol Brazil, the upstream subsidiary of Repsol in Brazil. We hold a 40% equity interest in Repsol Brazil and are the first Chinese company to enter Brazil's pre-salt deep-water sector, capturing the largest oil and gas resources discovery of the century. We further expanded our pre-salt oil and gas reserves in Brazil with an agreement with GALP, Portugal's largest oil company, to acquire 30% of the share capital of GALP's Brazilian division. We also have onshore oil and gas reserves and production base in Argentina, which were acquired from Occidental Petroleum Corporation.

In the Middle East, we own oil and gas assets in Iraq through our wholly owned subsidiary, Addax Petroleum Corporation.

In Asia-Pacific, we have a 25% equity interest in APLNG, which operates one of the largest CSG and liquefied natural gas integrated projects in Australia.

As of December 31, 2014, based on our investment amounts, 54.6% of our overseas oil and gas assets were in production, 41.7% were under construction, and 3.6% were in exploration stage.

## Oil and Natural Gas Production

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

	Year Ended December 31,		
	2012	2013	2014
<b>Crude oil production</b>			
Daily production (thousand barrels) . . . . .	1,380	1,511	1,541
Total production (million barrels) . . . . .	504	551	563
Average realized sales price (US\$ per barrel) . . . . .	101.5	95.1	88.2
<b>Natural gas production<sup>(1)</sup></b>			
Daily production (mmcf) . . . . .	1,955	2,503	2,730
Total production (bcf) . . . . .	714	914	996
Average realized sales price (US\$ per mcf) . . . . .	5.9	6.3	6.3
<b>Total crude oil and natural gas production</b>			
Daily production (thousand boe) . . . . .	1,721	1,928	1,996
Total production (million boe) . . . . .	628	704	729
PRC . . . . .	416	421	430
Overseas . . . . .	212	283	299

(1) Represents production of natural gas for sale.

## New Energy Development

The development and utilization of new energy play an increasingly important role in optimizing energy resources, coping with energy and environment challenges and achieving sustainable development. We are exploring the possibility of using unconventional oil and gas resources as a substitute for or supplement to conventional resources in order to provide more sustainable supply of hydrocarbon energy. Our new energy operations include CSG, shale oil, shale gas, coalbed methane, oil sands, LNG and other unconventional energies. For example, we built a pilot plant in China to produce bio-jet fuel using vegetable oils as feedstock in 2011, and launched the South Yanchuan coalbed methane project in 2013. In the past two years, by utilizing our world-leading fracturing and fast drilling technologies, we made significant progress in the exploration and development of our, and China's, first shale gas field in Fuling, Sichuan province. We made a number of technological breakthroughs and achieved satisfactory development results, allowing us to commence commercial production in our Fuling shale gas field ahead of schedule, and made China the third country in the world to commence commercial production of shale gas. In 2014, the proved reserve of the Fuling shale gas field increased by 107 billion cubic meters, and the economically recoverable oil and gas reserves increased by 431 million barrels. By the end of 2014, the Fuling shale gas field reached a production capacity of more than 2 billion cubic meters per annum, and we expect it to reach an annual production capacity of 5 billion cubic meters by the end of 2015, and 10 billion cubic meters by the end of 2017. We were awarded the "Shale Oil and Gas International Pioneer Award" by International Gas Union and American Gas Association in 2014.

We also seek to gain access to new technology and operational expertise with regard to unconventional resources through international partnerships and acquisitions. In 2011 and 2012,

we acquired an aggregate of 25% equity interest in APLNG, which operates one of the largest CSG and liquefied natural gas integrated projects in Australia. The acquisition was completed in July 2012. In October 2011, we acquired 100% of the equity of Daylight Energy Ltd., an Alberta, Canada-based oil and natural gas producer with diversified unconventional oil and gas assets in western Canada. In March 2012, we acquired a 30% equity interest in the Brazilian division of Galp Energia SGPS SA, Portugal's largest oil company, expanding our pre-salt oil and gas resources and reserves in Brazil. In April 2012, we acquired a 33.3% interest in Devon's certain shale oil and gas properties in the United States. In June 2013, we acquired a 50% undivided interest in 850,000 net leasehold acres in the Mississippi Lime play in northern Oklahoma for approximately US\$1 billion from Chesapeake Energy. In July 2014, we acquired from PETRONAS a 10% equity interest in the Pacific NorthWest LNG project located on Canada's west coast near Prince Rupert, British Columbia.

## Refining

### Overview

In 2012, 2013 and 2014, our refinery throughputs were approximately 223 million tonnes, 234 million tonnes, and 237 million tonnes, respectively, representing a market share of approximately 47.7%, 48.8% and 47.1% of the total crude oil processed in China for 2012, 2013 and 2014, respectively. We produce a full range of refined oil products. The following table sets forth the production of our principal refined oil products for periods indicated.

	Year Ended December 31,		
	2012	2013	2014
	(in million tonnes)		
Gasoline . . . . .	41.1	45.9	51.2
Diesel . . . . .	77.8	77.5	74.3
Kerosene (including jet fuel) . . . . .	15.0	17.4	20.7
Light chemical feedstock . . . . .	36.5	38.2	39.4
Lubricant . . . . .	1.1	1.2	1.1
Liquefied petroleum gas . . . . .	11.2	12.1	12.5
Fuel oil . . . . .	3.2	4.2	3.6

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

On March 26, 2013, NDRC promulgated the *Circular on Further Improving Price Formation Mechanism of Refined Oil (Fa Gai Jia Ge[2013]No.624)*. Since the implementation date of the circular, the prices of refined oil products are adjusted every 10 business days instead of the previous 22 business days, and the price adjustments are no longer limited by the 4% cap. If the price changes in the international oil markets are less than 50 yuan per ton in a certain price-adjustment period, then the domestic refined oil products prices will not be adjusted, and the initial prices will be carried over to the next period. The circular also adjusted the varieties of crude oil used to calculate the price changes for PRC domestic oil products. In special situations, such as sharp rises in PRC domestic inflation, emergencies or dramatic swings in global oil prices, the new price adjustment mechanism may be suspended, postponed or downsized.

On September 16, 2013, the NDRC promulgated the *Circular of Relevant Opinions on Pricing Policies in Relation to the Oil Quality Upgrades (Fa Gai Jia Ge[2013]No.1845)*. The circular provides that the retail prices of gasoline and diesel products may be increased if the quality of such products are upgraded from National III standards to National IV standards or from National IV standards to National V standards. For gasoline and diesel products that are upgraded from National III to National IV standards, the prices of gasoline and diesel products may be raised by no more than RMB 290 per tonne and RMB 370 per tonne, respectively; for gasoline and diesel products that are upgraded from National IV to National V standards, the prices of gasoline and diesel products can be raised by no more than RMB 170 per tonne and RMB 160 per tonne, respectively.

### ***Refining Facilities***

Currently we operate 35 refineries in China and have invested in one refinery overseas. Our refineries in China are mainly located in China's coastal regions, including the Bohai Rim cluster, the Yangtze River Delta cluster and the Pan-Pearl River Delta cluster, which have more developed economies, higher population densities and larger numbers of oil product consumers than the other regions of China. The strategic locations of our coastal refineries also reduce the transportation costs on shipments from the crude oil import markets. We have also been increasingly seeking to develop our own proprietary high-sulfur, high-acid heavy crude oil processing techniques, which we believe represent the most advanced technology in use in China.

As of December 31, 2014, our total primary distillation capacity in China was 294.6 million tonnes per annum. In line with the global oil and gas industry's focus on large-scale, base-load and integrated refinery developments, our refineries have an average capacity of 8.4 million tonnes, significantly higher than the average capacity of any stand-alone refinery in the world and in China. In 2014, 13 of our refineries in China reached a primary distillation capacity of ten million tonnes or more per annum, while our largest refinery, Maoming refinery, had a primary distillation capacity of 23.5 million tonnes per annum. In addition, we own 10 integrated refining and chemical production facilities. Our refinery throughputs were 223.1 million tonnes, 233.7 million tonnes, and 237.0 million tonnes for the years ended December 31, 2012, 2013 and 2014, respectively.

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

	<b>As of and for the Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(in million tonnes)</b>		
Primary distillation capacity per annum <sup>(1)</sup> . . . . .	275.2	284.1	294.6
Refinery throughputs . . . . .	223.1	233.7	237.0

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

For the years ended December 31, 2012, 2013 and 2014, our overall yield for all refined oil products at our refineries was 95.1%, 94.8% and 94.7%, respectively.

## *Sources of Crude Oil*

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

	Year Ended December 31,		
	2012	2013	2014
	(in million tonnes)		
<b>Source of Supply</b>			
Self-supply in China . . . . .	34.7	34.2	32.2
PetroChina Company Ltd. . . . .	5.2	5.2	6.8
CNOOC Ltd . . . . .	6.9	5.5	3.8
Import . . . . .	176.4	188.8	194.2
<b>Total</b> . . . . .	<u>223.1</u>	<u>233.7</u>	<u>237.0</u>

## **Chemicals**

### *Overview*

We are the largest chemicals producer in China measured by production. We produce a full range of chemical products including intermediate petrochemicals, synthetic resins, synthetic fiber monomers and polymers, synthetic fibers, synthetic rubber and chemical fertilizers. As a result of our continuing efforts in enhancing products differentiation, we have been able to produce more high value-added and high performance products. In 2014, over 76% of synthetic resins and over 57% of synthetic fibers we produced were among those high-end products, many of which were specifically customized to the needs of our customers.

Synthetic resins, synthetic fibers, synthetic rubber, chemical fertilizers and some intermediate petrochemicals comprise a significant majority of our external sales. Synthetic fiber monomers and polymers and intermediate petrochemicals, on the other hand, are mostly internally consumed as feedstock for the production of other chemical products. Our chemicals operations are integrated with our refining businesses, which supply a significant portion of our chemical feedstock such as naphtha. Our total sales volume of chemical products was 54 million tonnes, 58 million tonnes and 60 million tonnes in 2012, 2013 and 2014, respectively. Because of the strong domestic demand, most of our chemical products are sold in China's domestic market.

### *Products*

#### *Intermediate petrochemicals*

We are the largest ethylene producer in China. We have developed our proprietary technology to design and construct one-million tpa ethylene production facilities which we believe are among the most technologically advanced ethylene production facilities in the world. We have built, revamped and upgraded a number of our ethylene production facilities to use natural gas as feedstock, which is more cost-efficient compared with naphtha, the traditional feedstock. The amount of naphtha as a percentage of our total feedstock used for ethylene production decreased from approximately 60% in 2011 to approximately 41% in 2014. For the years ended December

31, 2012, 2013 and 2014, we produced approximately 9.5 million tonnes, 10.0 million tonnes and 10.7 million tonnes of ethylene, respectively, representing a market share of 64.2%, 61.5% and 63.1% with respect to domestic ethylene production in the corresponding years. Nearly all of our ethylene produced are used as feedstock for our chemicals production.

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

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

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

	Year Ended December 31,		
	2012	2013	2014
	(in thousand tonnes)		
Ethylene .....	9,542	9,980	10,698
Propylene .....	8,088	8,555	8,966
<b>Total</b> .....	<u>17,630</u>	<u>18,535</u>	<u>19,664</u>

#### *Synthetic resins*

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

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

	Year Ended December 31,		
	2012	2013	2014
	(in thousand tonnes)		
Polyethylene .....	6,202	6,596	7,111
Polypropylene .....	5,551	5,818	6,300
Polyvinyl chloride .....	578	308	224
Polystyrene .....	672	665	649
Others .....	763	743	776
<b>Total</b> .....	<u>13,766</u>	<u>14,129</u>	<u>15,060</u>

### *Synthetic fiber monomers and polymers*

Our principal synthetic fiber monomers and polymers are purified terephthalic acid, ethylene glycol, acrylonitrile, caprolactam, polyester, polyethylene glycol and polyamide fiber. Based on our 2014 production volume, we are the largest producer of purified terephthalic acid, ethylene glycol, caprolactam and polyester in China. Most of our production of synthetic fiber monomers and polymers are used as feedstock for synthetic fibers.

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

	Year Ended December 31,		
	2012	2013	2014
	(in thousand tonnes)		
Purified terephthalic acid . . . . .	3,125	2,947	2,476
Ethylene glycol . . . . .	1,974	2,018	1,935
Acrylonitrile . . . . .	613	703	737
Caprolactam . . . . .	305	549	530
Polyester . . . . .	3,018	2,988	2,588
Others . . . . .	369	346	302
<b>Total</b> . . . . .	<u>9,404</u>	<u>9,551</u>	<u>8,567</u>

### *Synthetic fibers*

We are the largest producer of polyester and acrylic fibers in China. Our principal synthetic fiber products are polyester fiber and acrylic fiber.

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

	Year Ended December 31,		
	2012	2013	2014
	(in thousand tonnes)		
Polyester fiber . . . . .	1,044	1,093	1,053
Acrylic fiber . . . . .	289	293	257
Others . . . . .	20	24	21
<b>Total</b> . . . . .	<u>1,353</u>	<u>1,410</u>	<u>1,331</u>

### *Synthetic rubbers*

Our principal synthetic rubbers are cis-polybutadiene rubber, styrene butadiene rubber (“SBR”), styrene butadiene-styrene thermoplastic elastomer and isobutadiene isoprene rubber (“IIR”). Based on our production in 2014, we are the largest producer of SBR and cis-polybutadiene rubber and the only producer of IIR in China.

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

	Year Ended December 31,		
	2012	2013	2014
	(in thousand tonnes)		
Cis-polybutadiene rubber.....	343	439	418
Styrene butadiene rubber .....	571	472	456
Isobutylene isoprene rubber .....	32	35	26
Others .....	295	346	341
<b>Total</b> .....	<u>1,241</u>	<u>1,292</u>	<u>1,240</u>

#### *Chemical fertilizers*

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

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

	Year Ended December 31,		
	2012	2013	2014
	(in thousand tonnes)		
Synthetic ammonia .....	1,264	1,159	955
Urea .....	1,052	918	93
Nitrogen .....	663	687	307
<b>Total</b> .....	<u>2,979</u>	<u>2,764</u>	<u>1,355</u>

#### *Coal Chemicals*

We commenced construction of a number of coal chemical projects, with the aim of developing an integrated coal-to-chemicals industry chain. For example, we started building the Zhong'an coal chemical project, an environment-friendly project that uses coal to produce methanol and olefin. We also commenced construction of the Erdos coal deep-processing project, our first coal-to-chemicals demonstration project, which uses coal to produce methanol, olefin and polyolefin.

#### *Marketing and Sales of Chemical Products*

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

Our principal sales and distribution channels consist of direct sales to end-users, most of which are large and medium-sized manufacturing enterprises, and sales to distributors in our national sales network. We also provided after-sale services to our customers, including technical support. We continuously strive to improve our product mix and enhance our product quality to meet market needs.

## Marketing and Distribution

### Overview

We operate the largest sales and distribution network for refined oil products in China. The total amount of gasoline, diesel and kerosene (including jet fuel) that we distributed and sold in China was 159.0 million tonnes, 165.4 million tonnes and 171.0 million tonnes in 2012, 2013 and 2014, respectively, representing a market share of approximately 63.3%, 62.7% and 63.6% of refined oil products distributed and sold in China, respectively. Most of the refined oil products sold by us are produced internally.

- We have a dominant position in the oil and gas fueling market in China.
- We have expanded our CNG business by leveraging our extensive service station network.
- We have 10,807 kilometers of refined oil pipelines in China, which cover 18 provinces and municipalities and are directly connected to 20 large-scale refineries.
- We have 16.2 million cubic meters of refined oil product storage capacity.
- Our loyalty fuel cards had over 80 million end users and can be used in over 28,000 of our service stations.
- The Great Wall lubricant oil is one of our high-tech and premium quality signature products. It was named as the designated oil in the Beijing Olympic Games 2008, enhancing our brand name.

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

	Year Ended December 31,		
	2012	2013	2014
<b>Total sales volume of refined oil products</b> (in million tonnes) . . . . .	173.2	180.0	189.2
<b>Sales volume of refined oil products in China</b> (in million tonnes) . . . . .	159.0	165.4	171.0
Of which: Retail . . . . .	107.9	113.7	117.8
Direct sales and wholesale . . . . .	51.1	51.7	53.1
<b>Average annual throughput of service stations</b> (in tonnes per station) . . . . .	3,498	3,707	3,858
	Year Ended December 31,		
	2012	2013	2014
<b>Total number of service stations under Sinopec brand.</b> . . . .	30,836	30,536	30,551
Of which: Self-operated service stations . . . . .	30,823	30,523	30,538
Franchised service stations . . . . .	13	13	13

On February 19, 2014, the board of directors of Sinopec Corp. unanimously approved a proposal to restructure Sinopec Corp.'s marketing and distribution business segment by selling up to 30% of the segment's ownership to social and private investors. The proposed restructuring reflects a part of the PRC government-driven reforms to introduce more private investment into state-owned enterprises. Valuation of the marketing and distribution business segment was determined based on its audited financial statements and other factors. By April 2014, Sinopec Corp. had injected its assets in the marketing and distribution segment into Sinopec Marketing, a wholly-owned subsidiary of Sinopec Corp. On September 12, 2014, Sinopec Marketing entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors agreed to subscribe for certain equity interest in Sinopec Marketing. As of March 6, 2015, the 25 investors had made an aggregate capital contribution of RMB105.04 billion to Sinopec Marketing. These investors include affiliates of Bank of China, ICBC Credit Suisse Asset Management, China Cinda Asset Management, China International Capital Corporation, China Pacific Insurance Group, China Life Insurance Company, Sino Life Insurance, Haier Electronics, ENN Energy Holdings, China Asset Management, Harvest Fund Management, RRJ Capital, Fosun International, Hopu Investment and Tencent. By forming strategic alliances with these investors, we plan to expand our non-fuel businesses into industries such as insurance, logistics, medicine, online-to-offline services and mobile payment, and transform ourselves from a petrochemical product provider to a full service provider. Sinopec Marketing completed the change of business registration procedures and obtained a business license from the Beijing Municipal Administration of Industry and Commerce on March 31, 2015. Sinopec Corp. will comply with appropriate approval and disclosure requirements under applicable law and stock exchange listing rules with respect to any development of the proposed restructuring.

### ***Retail***

In 2012, 2013 and 2014, we sold approximately 107.9 million tonnes, 113.7 million tonnes and 117.8 million tonnes of gasoline, diesel and kerosene (including jet fuel) in China, respectively, through our retail network, representing approximately 67.8%, 68.8% and 69.0% of our total gasoline, diesel and kerosene (including jet fuel) sales volume in China for 2012, 2013 and 2014, respectively.

All of our retail sales are made through a network of service stations and petroleum shops operated under the "Sinopec" brand. As of December 31, 2014, we had a total of 30,551 service stations, far exceeding our competitors. Through this unified network we are more able to implement consistent pricing policies, maintain both product and service quality standards and more efficiently deploy our retail network.

Though we franchise the Sinopec brand to third-party service stations, service stations that are wholly owned and operated by us account for 99.9% of the Sinopec-branded service stations. The locations and brand advantages of our service stations are increasingly being evident, with rising throughput per station enhancing profitability of our retail business. The average annual throughput per station for 2012, 2013 and 2014 was 3,498 tonnes, 3,707 tonnes and 3,858 tonnes, respectively.

Our strong retail network provides extensive geographic coverage of retail sales across China. We continue optimizing the coverage of and accelerating the development of retail outlets, especially service stations in expressway service areas, urban centers, new urban areas, transportation hubs and other key locations. Our retail network occupies a dominant position in China's eastern and southern regions, which consist of the more densely populated and economically developed

provinces in China. As of December 31, 2014, we had more than 1,000 service stations in each of 13 provinces, which are all located in China's eastern and southern regions. These 13 provinces accounted for 68% of China's GDP, 64% of China's population, 57% of China's total length of expressway and 69% of China's highway in 2013.

We have developed non-fuel businesses for our full-service stations to transform our network of traditional service stations into a comprehensive one-stop multifunctional integrated service platform that combines "fueling, shopping, dining and car services." The number of our Easy Joy convenience stores reached approximately 23,700 as of December 31, 2014, providing more than 70,000 products in more than 200 product categories. Our transaction value from non-fuel businesses has grown rapidly from RMB 11.0 billion in 2012 to RMB 17.1 billion in 2014, representing a CAGR of 24.6%.

We are a leader in China in building self-service petrol stations. We are also a leader in China in promoting the use of pre-paid fuel cards to enhance our customer loyalty. As of December 31, 2014, we have over 80 million end users of our pre-paid fuel cards. We have worked with commercial banks, telecom companies and network payment service providers to enable our customers to make convenient prepayments on our fuel cards.

### ***Direct Sales and Wholesale***

In 2012, 2013 and 2014, we sold approximately 51.1 million tonnes, 51.7 million tonnes and 53.1 million tonnes of major refined oil products in China, respectively, through direct sales and wholesale, representing approximately 32.2%, 31.2% and 31.1% of our total sales volume of major refined oil products in China for 2012, 2013 and 2014, respectively.

Our direct sales include sales to commercial customers such as industrial enterprises, hotels, restaurants and agricultural producers in China. Our wholesale sales include sales to large commercial or industrial customers and independent distributors as well as sales to certain long-term customers such as railway, airlines, shipping and public utilities. As of December 31, 2014, through our wholesale centers, we operate 383 storage facilities with a total capacity of approximately 16.2 million cubic meters, substantially all of which are wholly owned by us. Our wholesale centers are connected to our refineries by railway, waterway and, in some cases, by pipelines. We also own dedicated railways, oil wharfs and oil barges, as well as rail tankers and oil trucks.

### **Oil and Petrochemical Engineering Technical Services**

#### ***Refining and Chemical Engineering Technical Services***

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

In 2014, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas refining and chemical engineering technical services amounted to US\$1.9 billion and US\$1.1 billion, respectively.

Some of our landmark projects in 2014 included the Zhongtian Hechuang coal chemical project, the ZhongAn Coal chemical project, the Yuanba natural gas purification project, the Sinochem Quanzhou project, the Shijiazhuang oil refining and chemical project, the Shandong LNG storage tank zone project, the Yulin coal chemical project, the 700 Ktpa coal-to-olefin project DMTO-II unit of Pucheng Clean Energy Chemical Co., Ltd., the DMTO and Polyolefin projects of Zhejiang Xingxing New Energy Co., Ltd., the 500 Ktpa engineering plastics project MTO unit, olefin separation unit and polypropylene engineering of Inner Mongolia China Coal Mengda New Energy Chemical Industry Co., Ltd., the Shenhua Ningxia coal Coal-to-Liquids (CTL) project, the Qinghai Damei DMTO project, the Malaysia project, the aromatics project of Kazakhstan Atyrau Refinery, the Kazakhstan Atyrau FCC project, and the U.S. JUMBO PTA and PET project.

### ***Oil Engineering Technical Services***

We conduct our oil engineering technical services primarily through Sinopec Oilfield Service. Our well-trained service teams are equipped with specialty techniques and skills to provide a number of oilfield services, including geophysical exploration, drilling, well logging, mud logging and downhole operations under various geologic and engineering conditions of land, including tidal zones, shallow water areas, mountains, plateaus, deserts and swamps. More than 200 oil and gas projects that we undertook in China have commenced production since 2010. We also actively explore overseas markets to expand our service reach. For example, we are regarded as a preferred drilling service provider by the oil and gas companies in Saudi Arabia. As of December 31, 2014, our engineering technical service teams provided services in 43 countries and regions outside China in relation to more than 500 oil engineering technical service contracts.

In 2014, the aggregate value of new contracts and the aggregate value of completed contracts of our overseas oil engineering technical services amounted to US\$3.0 billion and US\$2.5 billion, respectively.

### **Others**

#### ***International Trade***

Our international trade business primarily consists of the international trading activities of our subsidiary, China International United Petroleum & Chemical Co., Ltd. Major items that we import and export include crude oil, refined oil, petrochemicals and equipment and we have a global distribution plan for each product line. We were China's largest crude oil trading company in terms of annual crude oil import and export volume in 2014, with total crude oil trade volume reaching 264.3 million tonnes. In addition, we have increased our international trading activities for catalyzers and have enlisted major international oil companies as our customers.

#### ***Research and Development***

Our research and development division comprises research and development institutes focusing on research and development in the upstream, refining and chemicals segments as well as production safety. The PRC government has granted us a special fund to support our research and development on technological innovation, energy conservation and emission reduction.

With respect to exploration and production, we achieved significant breakthroughs in shale gas technologies in Fuling, our first shale gas field. In addition, we have developed key technologies that would allow us to more efficiently develop our Dawan high-sulfur-content gas field with horizontal wells.

With respect to the refining and chemicals segments, we continued to reinforce development of production technologies for clean products. For example, we have commissioned our countercurrent moving bed continuous reforming facility, and applied liquid phase recycling diesel hydrogenation technology in several of our facilities. In addition, we commercialized the looping process for PP production and a technology for rare-earth isoprene rubber, and actively promoted transformational developments. In addition, with the successful trial use of our self-developed bio-jet fuel in commercial flights, we received the first license to produce bio-jet fuel in China, and made China the fourth country in the world that has proprietary technologies to produce bio-jet fuel.

With respect to new energy technologies, we built a pilot plant to produce bio-jet fuel using vegetable oils as feedstock. Our self-developed MTO technology is being commercialized.

As of December 31, 2014, we owned more than 20,000 patents in China and overseas. One of our employees won the Top National Science and Technology Award in 2008. In 2014, twelve of our research and development projects were awarded the National Scientific Technology Progress and Technological Invention Prize. In addition, seven of our research and development projects won the China Patent Merit Award.

### **Property**

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

### **Employees**

As of December 31, 2014, we had over 600,000 employees. Our employees participate in various basic social insurance plans organized by municipal and provincial governments whereby we are required to make monthly contributions to these plans at certain rates of the employees' salary as stipulated by relevant local regulations. Expenses incurred by us in connection with the retirement benefit plans were approximately RMB 5,154 million, RMB 5,502 million and RMB 5,461 million, respectively, for the years ended December 31, 2012, 2013 and 2014.

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

### **Risk Management**

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

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

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

*Debt Management Policy:* We have centralized the financing management of our group entities and have diversified our financing sources to include international debt capital markets. Consistent with our internal policies, our total debt/total capitalization ratio was lower than 40%, and our total debt/EBITDA ratio was lower than 3, as of December 31, 2012, 2013 and 2014. We believe that such ratios will continue to remain at a reasonable level in the foreseeable future. We also endeavor to maintain reasonable debt maturities and currency structure. For the calculation of EBITDA, see note (1) to “Selected Financial Information.”

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

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

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

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

## **Insurance**

Through our Safety Production Insurance Fund and other insurance arrangements, we have insurance coverage for our property, plant, equipment and certain assets that are subject to significant operating risks, third-party liability insurance against claims relating to personal injury, property and environmental damages that result from accidents and employer liabilities insurance.

We believe that our insurance coverage is comparable to that of other companies engaged in similar businesses. Our oil and gas operations are subject to hazards and risks inherent in the trading, drilling and production of petroleum products. As protection against these operational risks, we maintain insurance coverage against most potential losses, including the loss of wells, as well as liabilities related to costs of pollution control and environmental compliance. Additionally, we purchase insurance to cover credit risks relating to our international trading business.

### **Intellectual Property**

We rely on a variety of patents, copyrights, trade secrets, trademarks and proprietary information to maintain and enhance our competitive position. In 2014, we applied for 5,888 patents in China and overseas, 3,722 of which were granted among which 2,224 were invention patents. As of December 31, 2014, we owned more than 20,000 patents in China and overseas, and the number of our invention patents ranks first among SOEs in China. We do not believe that any individual property right or related group of intellectual property rights is of such importance that its expiration or termination would materially affect our business.

### **Legal Proceedings**

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

### **Environmental Matters**

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

We began the “Clear Water, Blue Sky” project in 2013 by earmarking RMB 22.87 billion of investment to implement 803 comprehensive environmental improvement measures. As of December 31, 2014, we had invested 52.9% of the earmarked funds under this project, and had implemented 71.7% of the environmental improvement measures. In 2014, we launched the “Energy Efficiency Doubling” initiative to further integrate our efforts in energy conservation, emissions control and carbon reduction, with a goal to double our energy efficiency by the end of 2025, to reduce our coal consumption by 42 million tonnes, and to reduce the emissions of carbon dioxide, sulfur dioxide and nitrogen oxides by 81 million tonnes, 150 thousand tonnes and 100 thousand tonnes, respectively.

We believe that our businesses are in compliance with currently applicable national, local and foreign environmental laws and regulations in all material aspects. In addition, with improved technology, our comprehensive energy consumption per RMB10,000 output value decreased significantly, the chemical oxygen demand for wastewater we disposed of decreased by 5.6% from 2013 to 2014, and our sulfur dioxide emission decreased by 9.1% during the same period. During the years ended December 31, 2012, 2013 and 2014, we did not encounter any material issues relating to environmental matters and were not subject to any material administrative penalties due to any activities that may cause pollution to the environment.

## SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

### Overview

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

#### *National Development and Reform Commission*

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

- formulating a guidance plan for annual production, import and export amount of crude oil, natural gas and gasoline nationwide based on its forecast on macroeconomic conditions in China;
- setting the pricing policy for refined oil and natural gas products;
- approving certain domestic and overseas oil/gas pipeline network projects and refinery projects which are subject to the NDRC's approval as required by the Catalogue of Investment Projects Approved by the Government (2014); and
- approving foreign investment-involved projects that are in excess of certain investment limits.

#### *The Ministry of Commerce*

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

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

#### *Ministry of Land and Resources*

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

## **Regulation of Exploration and Production**

### ***Exploration and Production Rights***

The PRC Constitution provides that all mineral and oil resources belong to the state. In 1986, the Standing Committee of the National People's Congress passed the Mineral Resources Law (amended in 1996) which authorizes the MLR to exercise administrative authority over the exploration and production of the mineral and oil resources within the PRC, including its territorial waters. The Mineral Resources Law and its supplementary regulations provide the basic legal framework under which exploration licenses and production licenses are granted. The MLR has the authority to grant exploration licenses and production licenses on a competitive bidding or other basis it considers appropriate. Applicants for these licenses must be companies approved by the State Council to engage in oil and gas exploration and production activities. Currently, only we, CNPC, CNOOC and Shanxi Yanchang Petroleum Group Ltd. have obtained such approval. In addition, pursuant to the Regulation on the Administration of Geological Survey Qualifications promulgated by the State Council, which became effective from July 1, 2008, any entity engaging in geological survey activities shall obtain a geological survey qualification certificate. Oil and natural gas survey qualifications, among others, shall be examined, approved and granted by the MLR.

Applicants for exploration licenses must first register with the MLR blocks in which they intend to engage in exploration activities. The holder of an exploration license is obligated to make an annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. Investment ranges from RMB 2,000 per square kilometer for the initial year to RMB 5,000 for the second year and to RMB 10,000 for the third and subsequent years. Additionally, the holder has to pay an annual exploration license fee of RMB 100 per square kilometer for each of the first three years. Afterwards, the annual fee increases by an additional RMB 100 per square kilometer per year up to a maximum of RMB 500 per square kilometer. The maximum term of an exploration license for petroleum or natural gas is 7 years. The exploration license may be renewed upon application by the holder at least 30 days prior to expiration date, with each renewal for a maximum two-year term.

At the exploration stage, an applicant can also apply for an ongoing exploration and production license that allows the holder to test and develop reserves not yet fully proved. The progressive exploration and production license has a maximum term of 15 years. When the reserves become proved for a block, the holder must apply for a full production license in order to undertake production.

The MLR issues full production licenses to applicants on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license for a large-scale mine is 30 years unless a special dispensation is given by the State Council. Due to a special dispensation granted to us by the State Council, the maximum term of our full production licenses is 80 years. The full production license is renewable upon application by the holder at least 30 days prior to expiration of the original term. A holder of the full production license has to pay an annual full production right usage fee of RMB 1,000 per square kilometer.

Exploration and production licenses do not grant the holders the right to enter upon any land for the purpose of exploration and production. Holders of exploration and production licenses must separately obtain the right to use the land covered by the licenses, and if permissible under applicable laws, current owners of the rights to use such land may transfer or lease the land to the license holder.

### ***New Incentives for Shale Gas Development***

China National Energy Administration (“NEA”) issued the Shale Gas Industry Policy (the “Policy”) on October 22, 2013, which classifies shale gas as a “national strategic new industry” and calls for more fiscal support for exploration and development of shale gas. The Policy took effect from October 22, 2013, and the incentives call for a subsidy of RMB 0.4 per cubic meter of shale gas produced from 2012 to 2015. The value of the subsidy given to firms will be adjusted according to the industry’s development, with authority granted to local governments to manage the level of fiscal incentive granted regionally. The Policy provides that mineral resources compensation fees and/or mineral right usage fees for shale gas exploitation enterprises will be reduced or exempted, and tariffs on the importation of certain equipment can be exempted under certain circumstances. In addition, the government intends to develop and issue regulations on tax incentive policies relating to resource tax, value added tax and income tax for shale gas exploitation enterprises.

### ***Price Controls on Crude Oil***

According to the Measures for Administration of Petroleum Products Price (Trial) issued by the NDRC on March 26, 2013, the crude oil price shall be determined by the enterprises on their own accord, by reference to the international market price. The price for supplying crude oil by us and CNPC to each other shall be determined by both the parties upon consultation in accordance with the principle that the cost for transporting domestic crude oil to the refinery is equal to the cost for importing crude oil from international market to the refinery. The price for providing crude oil by us and the CNPC to local refineries shall be determined in reference to the supply prices between the two corporations. The price of crude oil manufactured by CNOOC or other enterprises shall be determined on their own accord by reference to the international market price.

### ***Volume and Price of Natural Gas***

The NDRC formulates the annual natural gas supply guidelines which require natural gas producers to distribute a specified amount of natural gas to specified fertilizer producers. The actual production level of natural gas (excluding the amount supplied to the fertilizer producers) is determined by the natural gas producers themselves.

On May 31, 2010, the NDRC adjusted the price-setting mechanism of natural gas. In order to save resources, adjust the prices of natural gas with other alternative resources and allocate natural gas resources rationally, the NDRC decided to increase the ex-factory benchmark price of natural gas produced by China and to improve the natural gas pricing policies and related measures, which include:

- removing the “dual-pricing mechanism,” and increasing the ex-factory benchmark price of onshore natural gases produced by China; and

- increasing the floating range of prices: after combining the first and second tiers of prices of onshore natural gases produced by China, the ex-factory benchmark price may fluctuate up to 10% of the guidance price with no limitation on the minimum price; within such floating range, business parties may negotiate the actual price.

On December 26, 2011, the NDRC decided to implement the reform of natural gas price formation mechanism in Guangdong Province and Guangxi Autonomous Region. The purpose of such reform is to cause the ex-factory price of natural gas to be decided by the market and the government would only interfere with the price of natural gas pipeline transmission with the nature of natural monopoly. Such reform is proposed to be carried out in the following aspects: first, change the prevailing pricing method (cost plus pricing) to “net back pricing,” decide the pricing reference point and the types of alternative energy, and establish the connection between the prices of natural gas and alternative energy; second, determine the price of natural gas at city gate in each province (region and city), based on the pricing reference point and taken into consideration the major consumers of natural gas resources and pipeline transmission costs; third, the price of natural gas at city gate will be dynamic and adjusted annually based on the changes of alternative energy prices, and will be adjusted semiannually or quarterly in the future; and fourth, a market-oriented pricing mechanism will also be implemented to set the prices of unconventional natural gas such as shale gas, coal bed methane and coal-to-gas.

On June 28, 2013, NDRC released the *Circular on Adjustment of the Price of Natural Gas (Fa Gai Jia Ge[2013]No.1246)*. Pursuant to the circular, the NDRC expanded the above-mentioned reform nation-wide. Prices of natural gas will be linked to the prices of alternative energy, and the prices will be determined at city gates, by the market (i.e., by natural gas suppliers and consumers themselves), subject to a ceiling price set by the government. The natural gas prices slightly increased, but caps were set for the prices increase. Price of natural gas used to make fertilizer cannot increase by more than RMB 0.25 per cubic meter and prices of other non-residential natural gas cannot increase by more than RMB 0.4 per cubic meter. Gas prices for residential users will remain unchanged.

On February 26, 2015, NDRC released the *Circular on Adjustment of the Price of Natural Gas for Non-resident (Fa Gai Jia Ge [2015] No.351)*. Pursuant to the circular, the NDRC aimed to accomplish the following: first, the maximum price of existing natural gas at city gate and the maximum price of increased natural gas at city gate shall be the same for a province (region and city); second, the price of natural gas for industrial end users (fertilizer producers excluded) at city gate shall be determined by the buyers and sellers directly and natural gas price for fertilizer producers will be raised slightly; third, gas prices for residential users will remain unchanged.

## **Regulation of Refining and Marketing of Refined Oil Products**

### ***Volume and Price Controls on Gasoline Diesel and Jet Fuels***

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

According to the Notice on Implementing Reforms on Prices of Refined Oil Products and Tax promulgated by the State Council on December 18, 2008 and the Measures for Administration of Petroleum Products Price (Trial) issued by the NDRC on March 26, 2013, the sale price for refined oil products in the PRC market shall be adjusted with reference to international crude oil price fluctuations, subject to governmental control. The NDRC will set the maximum retail price and the provincial price bureaus have the authority to set the maximum wholesale prices for

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

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

### **Regulation of Crude Oil and Refined Oil Products Market**

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

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

### ***Investment***

Under the State Council's Decision on Investment System Reform, investments without the use of government funds are only subject to a licensing system or a registration system, as the case may be. Under the current system, only significant projects involved in the Catalogue of Investment Projects Approved by the Government (2014) are subject to approval so as to maintain social and public interests. The scope to which the government approval system is applicable shall be observed and adjusted where necessary. All other projects of any investment scale are only subject to a registration system.

Pursuant to *the Measures for the Administration of Approval and Filing of Overseas Investment Projects (amended in 2014)* and the *Notice on Issues Relating to Implementation of the Measures for the Administration of Approval and Filing of Overseas Investment Projects* issued by the NDRC on December 17, 2014 and May 14, 2014 respectively, projects concerning sensitive countries, regions or sensitive industries shall be approved by the NDRC. Specially, overseas investment projects concerning sensitive countries, regions or sensitive industries with investment amount of more than US\$2 billion by any Chinese party shall be reviewed by the NDRC and then approved by the State Council. The remaining overseas investment projects shall be filed with relevant regulatory bodies based on the following rules: i) projects implemented by an enterprise directly administered by the SASAC (a “Central SOE”) and projects implemented by local enterprise with investment amount of more than US\$300 million by any Chinese party are required to be filed with the NDRC; and ii) projects implemented by local enterprise with investment amount of less than US\$300 million by any Chinese party are required to be filed with provincial-level authority of the NDRC.

On October 31, 2014, the State Council issued the Catalogue of Investment Projects Requiring Government Approval (2014) (“2014 Catalogue”) which relaxed the Chinese approval requirements for overseas investment projects by Chinese investors. Under the 2014 Catalogue, NDRC approval will only be required for overseas investment projects concerning sensitive countries or regions or sensitive industries. All other projects by Central SOEs or larger than US\$300 million in size by local enterprises shall be filed with the NDRC.

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

### ***Taxation, Fees and Royalties***

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

Effective from January 1, 2008, the general enterprise income tax rate imposed on entities, other than certain enterprises enjoying preferential treatments under the EIT Law, is 25%.

Effective from January 13, 2015, China has adjusted the consumption tax rates of refined oil products.

On October 28, 2011, the Rules for Implementation of Interim Regulations of the Resource Tax was promulgated by the Ministry of Finance and State Administration of Taxation, under which the implementation of resource taxes reform will cover oil and gas enterprises nationwide from November 1, 2011. Any person who is involved in the production of crude oil and natural gas, and is qualified to pay resource taxes, shall pay 5% of the price of crude oil or natural gas as the resource tax. Qualified tax payers may enjoy an exemption or reduction of resource taxes.

Effective from January 1, 2015, the Ministry of Finance increased the threshold of the special oil income levy to US\$65 per barrel, and a five-level progressive rate will still be applicable to special oil income levy collection based on the sale prices, which is calculated monthly and paid quarterly.

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

<b>Tax Item</b>	<b>Tax Base</b>	<b>Tax Rate</b>
Enterprise income tax	Taxable income	25% effective from January 1, 2008.
Value-added tax	Revenue	13% for liquefied petroleum gas, natural gas and low density polyethylene for production of agricultural film and fertilizers and 17% for other items. We generally charge value-added tax to our customers at the time of settlement on top of the selling prices of our products on behalf of the taxation authority. We may directly claim a refund from the value-added tax collected from our customers of any value-added tax that we paid for (i) purchasing materials consumed during the production process; (ii) charges paid for drilling and other engineering services; and (iii) labor consumed during the production process.
Business tax	Revenue from pipeline transportation services	3% and 5%.
Consumption tax	Aggregate volume sold or self-consumed	Since January 13, 2015, the consumption tax rates are RMB 1.52 for gasoline per litre, RMB 1.2 for diesel per litre, RMB 1.52 for naphtha per litre, RMB 1.52 for solvent oil per litre, RMB 1.52 for lubricant oil per litre, RMB 1.2 for fuel oil per litre, and RMB 1.2 for jet fuel per litre, respectively. The consumption tax for jet fuel is currently exempted. Since October 1, 2011, the consumption tax is reinstated for naphtha and fuel oil if the enterprises producing such products make external sale for purposes of producing ethylene and aromatic hydrocarbon; whereas it is currently exempted, based on the actual consumption quantity, if such products are produced for the internal production of ethylene and aromatic hydrocarbon. Furthermore, the consumption tax will be refunded, based on the actual consumption quantity, to qualified enterprises if they purchase such products for the internal production of ethylene and aromatic hydrocarbon.

<b>Tax Item</b>	<b>Tax Base</b>	<b>Tax Rate</b>
Import tariff	CIF China price	5% for gasoline, 6% for diesel, 9% for jet kerosene and 6% for fuel oil. Beginning on January 1, 2015, the applicable tax rates for gasoline, fuel oil, diesel and jet kerosene are 1%, 1%, 1% and 0%, respectively.
Resource tax	Aggregate volume sold or self-consumed or sales price	Beginning on December 1, 2014, for domestic production of crude oil and natural gas, the applicable tax rate is 6% of the sales price.
Compensatory fee for mineral resources	Revenue of crude oil and natural gas	0%
Exploration license fee	Area	RMB 100 to RMB 500 per square kilometer per annum
Production license fee	Area	RMB 1,000 per square kilometer per annum.
Royalty fee <sup>(1)</sup>	Production volume	Progressive rate of 0-12.5% for crude oil and 0-3% for natural gas.
City construction tax	Total amount of value-added tax, consumption tax and business tax	1%, 5% and 7%.
Education surcharge and local education surcharge	Total amount of value-added tax, consumption tax and business tax	3% and 2%.
Special oil income levy	Any revenue derived from sale of domestically produced crude oil when the realized crude oil price exceeds US\$65 per barrel.	Progressive rate of 20% to 40% for revenue derived from crude oil with realized price in excess of US\$65 per barrel.

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

## MANAGEMENT

### General

Our business and operations are managed by our senior management through an executive committee (“Executive Committee”). Our board (“Board”) of directors has been established pursuant to the approval of the SASAC dated April 13, 2012. In connection with the establishment of our Board, we have submitted our revised Articles of Association to the SASAC and relevant governmental agencies for approval.

### Directors and Senior Management

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

Name	Age	Position
Fu Chengyu . . . . .	64	Chairman of the Company, Chairman of Sinopec Corp.
Wang Tianpu . . . . .	53	Director and President of the Company, Vice Chairman of Sinopec Corp.
Xu Bin . . . . .	59	Director of the Company, Supervisor of Sinopec Corp.
Ding Zhongzhi . . . . .	65	External Director of the Company
Ma Zhigeng . . . . .	70	External Director of the Company
Victor K. Fung . . . . .	70	External Director of the Company
Wu Xiaohua . . . . .	70	External Director of the Company
Cai Hongbin . . . . .	48	External Director of the Company
Li Anxi . . . . .	62	Employee Director of the Company

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

Name	Age	Position
Li Chunguang . . . . .	60	Vice President of the Company, Director and President of Sinopec Corp.
Zhang Jianhua . . . . .	51	Director and Senior Vice President of Sinopec Corp.
Wang Zhigang . . . . .	58	Director and Senior Vice President of Sinopec Corp.
Dai Houliang . . . . .	52	Director and Senior Vice President of Sinopec Corp.
Liu Yun . . . . .	59	Chief Accountant of the Company, Director of Sinopec Corp.
Zhang Haichao . . . . .	57	Vice President of the Company, Vice President of Sinopec Corp.
Jiao Fangzheng . . . . .	52	Vice President of the Company, Vice President of Sinopec Corp.

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

**Fu Chengyu**, aged 64, is Chairman of the Company and Chairman of Sinopec Corp. Mr. Fu is a professor level senior engineer and obtained a master’s degree. In 1983, he successively served as chairman of the joint management committee of the joint venture projects established between China National Offshore Oil Corporation (CNOOC) and foreign oil giants such as Amoco,

Chevron, Texaco, Phillips, Shell and Agip, etc. From 1994 to 1995, he served as Deputy General Manager of China Offshore Oil Nanhai East Corporation. In December 1995, he served as vice president of USA Phillips International Petroleum Company (Asia), and concurrently as General Manager of the Xijiang Development Project. In April 1999, he was appointed as General Manager of China National Offshore Oil Nanhai East Corporation. In September 1999, he was appointed as Executive Director, Executive Vice President and Chief Operating Officer of China National Offshore Oil Co., Ltd. In October 2000, he was appointed as Deputy General Manager of CNOOC; and in December 2000, he concurrently served as President of China National Offshore Oil Co., Ltd. In August 2002, he served as Chairman and Chief Executive Officer of China Oilfield Services Co., Ltd., a subsidiary of CNOOC. In October 2003, he served as General Manager of CNOOC, and concurrently as Chairman and Chief Executive Officer of China National Offshore Oil Co., Ltd. In September 2010, Mr. Fu resigned the post of Chief Executive Officer of China National Offshore Oil Co., Ltd. and continued to serve as Chairman. In April 2011, Mr. Fu was appointed Chairman of our Company; and in May 2011, he was appointed Chairman of Sinopec Corp.

**Wang Tianpu**, aged 53, is a Director and President of the Company and Vice Chairman of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute in July 1985 majoring in basic organic chemistry. He obtained his MBA degree in Dalian University of Science & Technology in July 1996 and Ph.D. degree in Zhejiang University in August 2003 majoring in chemical engineering. He is a professor level senior engineer. In March 1999, Mr. Wang was appointed as Vice President of Qilu Petrochemical Company, one of our subsidiaries. In February 2000, he was appointed as Vice President of Sinopec Corp. Qilu Branch Company. In September 2000, he was promoted to President of Sinopec Corp. Qilu Branch Company. In August 2001, Mr. Wang was appointed as Vice President of Sinopec Corp. In April 2003, he was appointed as Senior Vice President of Sinopec Corp. In March 2005, Mr. Wang was appointed as President of Sinopec Corp. In May 2006, Mr. Wang was elected as a Director and appointed President of Sinopec Corp. In May 2009, Mr. Wang was elected as Vice Chairman and appointed President of Sinopec Corp. In August 2011, Mr. Wang was elected as our Director and appointed as our President. In May 2013, Mr. Wang was elected as Vice Chairman of Sinopec Corp.

**Xu Bin**, aged 59, is a Director of the Company. Mr. Xu obtained a bachelor of law degree. He became Deputy Director of No. 6 Inspection and Supervision Office of the Communist Party of China Central Commission of Discipline Inspection in June 1996. In April 2000, he became Deputy Director of No. 3 Inspection and Supervision Office of the Communist Party of China Central Commission of Discipline Inspection. He was appointed as Director and Ombudsman of No. 3 Inspection and Supervision Office of the Communist Party of China Central Commission of Discipline Inspection in November 2004. In November 2006, he was designated as Director of Petitions Office of the Communist Party of China Central Commission of Discipline Inspection. In May 2011, he was appointed as the Chief of Discipline Inspection of the Company. Mr. Xu has been our Director since October 2011.

**Ding Zhongzhi**, aged 65, is an External Director of the Company. He also serves as an external director of China Mobile Communications Group Corporation. Mr. Ding graduated from Hunan University in 1974 majoring in electronic system and automation, and received his master's degree in management engineering from Central South University of Technology in 1997. Mr. Ding started his working career in 1968 and had served as Director General of Changsha Power Industry Bureau; Deputy Director General and a member of the CPC Committee of Hunan Provincial Power Industry Bureau; Deputy Director General (Vice President) and a member of the Party Committee of Central China Power Administration Bureau; Director General (President) and

Secretary of the Party Committee of Northwest Power Administration Bureau; President of China Power Investment Limited; Executive Vice Chairman, President, and Secretary of the Party Committee of China Power International Corporation; and a member of the preparatory team of China Power Investment Corporation. In December 2002, he was appointed as Vice President and a member of the Party Committee of China Power Investment Corporation. In September 2007, he served as a director of State Nuclear Power Technology Corporation. In August 2011, he was elected as an external director of China Mobile Communications Corporation. Mr. Ding has been an External Director of our Company since April 2012.

**Ma Zhigeng**, aged 70, is an External Director of the Company. He is also an external director of each of China Three Gorges Corporation and Dongfeng Motor Corporation. Mr. Ma is an alternate member of the 16th Communist Party of China Central Committee and a member of the fiscal and economic committee of the 11th National People's Congress. Mr. Ma graduated from Yangzhou Institute of Technology majoring in machinery manufacturing in 1968. He had served as Deputy Director General and a member of the Party Committee of Sichuan Ordnance Bureau under the Ministry of Ordnance Industry, Deputy Director General and a member of the CPC Committee of Sichuan Ordnance Bureau under the State Machinery Commission, Deputy Director and a member of the Party Committee of the Southwest Area Department under China North Industries (Group) Corporation ("NORINCO"), Deputy Director General and a member of the CPC Committee of Southwest Ordnance Bureau under NORINCO, and Chief Economist of NORINCO. In August 1993, he was appointed as Vice President and a member of the Party Committee of NORINCO. In June 1997, he served as Deputy Secretary of the Party Committee of NORINCO. In June 1999, he was appointed as President and Secretary of the CPC Committee of NORINCO. Mr. Ma was elected as an external director of each of Shanghai Electric Group, China Three Gorges Corporation and Dongfeng Motor Corporation in June 2010, December 2010 and March 2011, respectively. Mr. Ma has been an External Director of our Company since April 2012.

**Victor K. Fung**, aged 70, is an External Director of the Company. He also serves as an external director of Baosteel Group Corporation. He is a member of the 10th and 11th Chinese People's Political Consultative Conference. He currently serves as Chairman of Hong Kong Li & Fung Group. Mr. Fung holds bachelor and master degrees in electrical engineering from Massachusetts Institute of Technology, and a doctorate degree in business economics from Harvard University. He had taught as a professor at Harvard Business School, and served as President and Director, Vice Chairman and Chairman of Hong Kong Li & Fung Group. He holds a number of civic and professional appointments, including Chairman of the Hong Kong Trade Development Council, Chairman of the Airport Authority Hong Kong, Chairman of the Greater Pearl River Delta Business Council, Chairman of the Council of the University of Hong Kong, the Hong Kong representative on the APEC Business Advisory Council, and Chairman of International Chamber of Commerce. He also serves as an independent non-executive director of each of BOC Hong Kong (Holdings) Limited, PCCW Mobile Limited, Sun Hung Kai Properties Limited and Orient Overseas (International) Limited. In May 2005, Mr. Fung was elected as an external director of Baosteel Group Corporation. Mr. Fung has been an External Director of our Company since April 2012.

**Wu Xiaohua**, aged 70, is an External Director of the Company. He is a member of the Law Committee of the 11th National People's Congress. Mr. Wu graduated from the University of Science and Technology of China majoring in semiconductor in 1968. He has served successively as Deputy Director General of the First Equipment Department under the Ministry of Machinery and Electronics Industry; Deputy General Manager and a standing member of the Party Committee of Xi'an Electric-Driven Machinery Corporation (Exchange Cadre); Director General of the Major Equipment Department under the Ministry of Machine-Building Industry; Vice President and a

member of the Party Committee of China National Machinery and Equipment (Group) Corporation and concurrently Secretary of the Party Committee and First Deputy General Manager of China National Machinery and Equipment Import and Export Corporation; Vice Chairman, Vice President and a member of the CPC Committee of China National Machinery and Equipment (Group) Corporation and concurrently Secretary of the Party Committee and General Manager of China National Machinery and Equipment Import and Export Corporation. In April 1999, Mr. Wu was appointed as Deputy Director General and a member of the Party Committee of State Bureau of Machine-Building Industry, and promoted to Director General and Secretary of the Party Committee of the same bureau in September 1999. Mr. Wu was appointed as Deputy Secretary of the Central Work Committee of Large Enterprises in February 2001, Deputy Director and a member of the Party Committee of the State-Owned Assets Supervision and Administration Commission in March 2003, and President of China Electrotechnical Society in August 2006. Mr. Wu has been an External Director of our Company since April 2012.

**Cai Hongbin**, aged 48, is an External Director of the Company. He is also the Dean of Guanghua School of Management at Peking University. Mr. Cai received his PhD in economics from Stanford University in 1997. He had served as an assistant professor of the economics department at University of California, Los Angeles; a visiting assistant professor at the economics department of Yale University; and a professor and Assistant Dean of Guanghua School of Management at Peking University. He also serves as Deputy Director of the central economic committee of Chinese Democratic League, Director of J. Mirrlees Institute of Economic Policy Research at Peking University, an associate director of Center of Poverty Research at Peking University, advisor to the World Bank and Asia Development Bank, and independent director of China Everbright Bank Co., Ltd. and China Unicom (Hong Kong) Limited. Mr. Cai has been an External Director of our Company since April 2012.

**Li Anxi**, aged 62, is the Employee Director of the Company. Mr. Li is a professor-level senior political official and obtained a bachelor degree. In July 2005, he was appointed as President of Sinopec Maoming Petrochemical Company. In 2010, he was appointed as President Assistant and President of Sinopec Qilu Petrochemical Corporation. In November 2012, he was appointed as Employee Director of the Company.

**Li Chunguang**, aged 60, is Vice President of the Company and Director and President of Sinopec Corp. Mr. Li is a professor-level senior engineer and obtained a university diploma. He was Deputy General Manager of Sinopec Sales Company North China Branch in August 1991. In October 1995, he was appointed as Deputy General Manager of Sinopec Sales Company. In June 2001, he became General Manager of Sinopec Sales Co., Ltd. In December 2001, he was appointed as Director General of Oil Product Sales Department of Sinopec Corp. In April 2002, he was elected as Chairman of the Board of Directors and General Manager of Sinopec Sales Co., Ltd. In April 2003, he was appointed Vice President of Sinopec Corp. and in May 2009, he was elected as a Director of Sinopec Corp. Mr. Li has been our Vice President since November 2005. In May 2013, Mr. Li was elected as a Director and President of Sinopec Corp.

**Zhang Jianhua**, aged 51, is a Director and Senior Vice President of Sinopec Corp. Mr. Zhang is a professor-level senior engineer and obtained a PhD degree. He was appointed as Vice President of Shanghai Gaoqiao Petrochemical Company, a subsidiary of the Company in April 1999. In February 2000, he became Vice President of Sinopec Shanghai Gaoqiao Branch Company, which is a branch of Sinopec Corp. In September 2000, he was appointed as President of Sinopec Shanghai Gaoqiao Branch Company. In April 2003, Mr. Zhang was elected as Vice President of Sinopec

Corp. In November 2003, we was appointed concurrently as the Director General of the Production & Operation Management Department of Sinopec Corp. In March 2005, he was appointed as Senior Vice President of Sinopec Corp. In May 2006, Mr. Zhang was elected as a Director and appointed Senior Vice President of Sinopec Corp.

**Wang Zhigang**, aged 58, is a Director and Senior Vice President of Sinopec Corp. Mr. Wang is a professor-level senior engineer and obtained a PhD degree. In February 2000, he was appointed as Vice President of Sinopec Shengli Oilfield Company Limited. In June 2000, Mr. Wang served as Director and President of Sinopec Shengli Oilfield Company Limited. In November 2001, he was appointed temporarily as Deputy Director General and Deputy Secretary of CPC Leading Group of Economic and Trade Committee of Ningxia Hui Autonomous Region. In April 2003, he was appointed as Vice President of Sinopec Corp. In June 2003, he was appointed the Director General of Sinopec Exploration and Production Department. In March 2005, he was appointed as Senior Vice President of Sinopec Corp. In May 2006, he was elected as a Director and appointed as Senior Vice President of Sinopec Corp. In January 2007, he was appointed as Vice Chairman of Sinopec International Petroleum Exploration and Product Corporation.

**Dai Houliang**, aged 52, is a Director and Senior Vice President of Sinopec Corp. Mr. Dai is a professor-level senior engineer and obtained a PhD degree. Mr. Dai was appointed as Vice President of Sinopec Yangzi Petrochemical Company in December 1997. In April 1998, he was appointed as Director and Vice President of Yangzi Petrochemical Co., Ltd. In July 2002, he was appointed as Vice Chairman and President of Yangzi Petrochemical Co., Ltd. and Director of Sinopec Yangzi Petrochemical Company. In December 2003, he was appointed as Chairman and President of Sinopec Yangzi Petrochemical Co., Ltd. and Chairman of Sinopec Yangzi Petrochemical Company. In December 2004, he was also appointed as Chairman of BASF-YPC Company Limited. He was appointed as the Deputy Chief Financial Officer of Sinopec Corp. in September 2005. Mr. Dai was appointed as Vice President of Sinopec Corp. in November 2005. In May 2006, he was elected as a Director and was appointed Senior Vice President and Chief Financial Officer of Sinopec Corp. Mr. Dai was elected as a Director and appointed as Senior Vice President of Sinopec Corp. in May 2009. In March 2013, he was appointed as Chairman of Sinopec Catalyst Co., Ltd.

**Liu Yun**, aged 59, is Chief Accountant of the Company and a Director of Sinopec Corp. Mr. Liu is a senior accountant with a master's degree. Mr. Liu was appointed as Deputy Director General of Financial Department of the Company in December 1998. In February 2000, he was appointed as Deputy Director General of Financial Department of Sinopec Corp. In January 2001, he was appointed as Director General of Financial Department of Sinopec Corp. In June 2006, he was appointed as Deputy Chief Financial Officer of Sinopec Corp. In February 2009, he was appointed as Chief Accountant of the Company. In May 2009, he was elected as a Director of Sinopec Corp. In September 2013, he was appointed as Chairman of Sinopec Insurance Co., Ltd.

**Zhang Haichao**, aged 57, is Vice President of the Company, Vice President of Sinopec Corp, and the Chairman of the Board of Directors and President of Sinopec Marketing Co., Ltd. Mr. Zhang is a professor level senior economist with a master degree. In March 1998, he was appointed as Vice President of Zhejiang Petroleum Corporation; in September 1999, he was appointed as the President of Zhejiang Petroleum Corporation; in February 2000, he was appointed as the President of Sinopec Zhejiang Petroleum Co., Ltd.; in April 2004, he was appointed as the Chairman of the Board of Directors of Sinopec-BP Zhejiang Petroleum Sales Co., Ltd.; in April 2003, he was elected as the Employee's Representative Supervisor of Sinopec Corp.; in October 2004, he was appointed as the Secretary of CPC Committee, Vice Chairman of the Board of Directors, and Vice

President of Sinopec Marketing Co., Ltd.; in November 2005, he was appointed as Vice President of Sinopec Corp and also served as the Secretary of CPC Committee, Chairman of the Board of Directors, and President of Sinopec Marketing Co., Ltd.; and in June 2006, he served as the Chairman of the Board of Directors, and President of Sinopec Marketing Co., Ltd. Mr. Zhang has been Vice President of our Company since July 2014.

**Jiao Fangzheng**, aged 52, is Vice President of the Company, Vice President of Sinopec Corp., and the Director General of Sinopec Exploration and Production Department. Mr. Jiao is a professor level senior engineer with a PhD degree. In January 1999, he was appointed as the Chief Geologist in Zhongyuan Petroleum Exploration Bureau of Sinopec Group Company; in February 2000, he was appointed as Vice President and the Chief Geologist of Sinopec Zhongyuan Oilfield Company; in July 2000, he was appointed as Deputy Director General of Sinopec Petroleum Exploration & Development Research Institute; in March 2001, he was appointed as Deputy Director General of Sinopec Exploration & Production Department; in June 2004, he was appointed as the President of Sinopec Northwest Oilfield Company; in July 2010, he was appointed as the Director General of Sinopec Exploration & Production Department; in October 2006, he was appointed as Vice President of Sinopec Corp; in September 2014, he was elected as the Chairman of the Board of Directors of Sinopec Oilfield Service Co., Ltd. and Vice Chairman of the Board of Directors of Sinopec International Petroleum Exploration and Production Corporation; and in February 2015, he was elected as the Chairman of the Board of Directors of Sinopec Yizheng Chemical Fiber Company. Mr. Jiao has been Vice President of our Company since July 2014.

## DESCRIPTION OF THE DOLLAR NOTES AND GUARANTEES

Each series of the Dollar Notes will be issued pursuant to separate Indentures (each an “Indenture” and together the “Indentures”) to be dated as of April 28, 2015 among the Guarantor, the Issuer and Citicorp International Limited as trustee (the “Trustee”) and Citibank N.A., London Branch as paying agent, transfer agent and registrar. A copy of this offering memorandum, the Dollar Notes, the Guarantees and the Indentures will be available for inspection at the registered office of the Trustee. The holders of a series of the Dollar Notes will be bound by, and be deemed to have notice of, all the provisions of the related Indenture.

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

### General

The 2020 Notes will be issued in an initial aggregate principal amount of US\$2,500,000,000 and will mature on April 28, 2020, the 2025 Notes will be issued in an initial aggregate principal amount of US\$1,500,000,000 and will mature on April 28, 2025 and the 2045 Notes will be issued in an initial aggregate principal amount of US\$800,000,000 and will mature on April 28, 2045, unless the 2020 Notes, the 2025 Notes and the 2045 Notes are repurchased, cancelled or redeemed earlier pursuant to the terms thereof and of each respective Indenture.

The 2020 Notes will bear interest at the rate of 2.50% per annum. The 2025 Notes will bear interest at the rate of 3.25% per annum. The 2045 Notes will bear interest at the rate of 4.10% per annum. Interest on the Dollar Notes will accrue from April 28, 2015 or from and including the most recent Interest Payment Date (as defined below) to which interest has been paid or provided for, to and excluding the next Interest Payment Date or the maturity date, payable semi-annually in arrears on and in each year (each, an “Interest Payment Date”), commencing on October 28, 2015, to the persons in whose names the Dollar Notes are registered at the close of business (whether or not a Business Day) on April 13 and October 13, respectively (each an “Interest Record Date”) immediately preceding an Interest Payment Date. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

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

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

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

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

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

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

## **Guarantees**

Under the Indentures, the Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of and interest on, and all other amounts payable under (including any Additional Amounts payable in respect of), the Dollar Notes when and as the same shall become due and payable, whether on the stated maturity, upon acceleration, by call for redemption or otherwise. The Guarantor has (i) agreed that its obligations under the Guarantees will be as if the Guarantor were principal obligor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Dollar Notes or the Indentures (other than in respect of the Guarantees) and (ii) waived the Guarantor's right to require the Trustee and the holders of the Dollar Notes to pursue or exhaust their legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantees. The Guarantees will not be discharged with respect to any Dollar Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Dollar Note is rescinded or must otherwise be restored, the rights of the holder of the Dollar Note under the relevant Guarantee will be reinstated with respect to such payment as though such payment had not been made. All payments under the Guarantees will be made in U.S. dollars.

*Guarantees of foreign indebtedness arising from offshore bond issuances by a PRC-incorporated entity are subject to registration by the State Administration of Foreign Exchange of the PRC (“SAFE”). The Guarantor plans to undertake the SAFE registration to discharge its obligations under the Guarantee.*

*The Guarantor understands from its discussion with the SAFE that under PRC law:*

- (i) the Guarantees will be legal, valid and binding obligations of the Guarantor upon execution;*
- (ii) the Guarantor is required to register the Guarantees with the Beijing Branch of the SAFE (the “Beijing Branch”) as soon as possible and in any event before the date 15 Beijing Business Days after the execution of the Guarantees. The Guarantees will be enforceable within the PRC against the assets of the Guarantor only upon the completion of administrative registration procedures with the Beijing Branch. See “Risk Factors — Risks Relating to the Notes and the Guarantees — There is uncertainty relating to the enforceability of the Guarantees of the Notes” and “Enforceability of Foreign Judgments and Civil Liabilities”; and*
- (iii) the Guarantees will cover all sums due under the Notes (including any principal, interest and related financial obligations).*

*Pursuant to the Notice on the Promulgation of the Provisions on Foreign Exchange Administration of Cross-border Guarantee issued by the SAFE on May 12, 2014, which became effective on June 1, 2014 (the “Cross-border Guarantee Provisions”), without obtaining the SAFE’s approval, all proceeds raised by the Issuer under the Notes outside the PRC may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. Pursuant to the Cross-border Guarantee Provisions, if the SAFE’s approval has not been obtained, the Guarantor is responsible for ensuring that the proceeds obtained by the Issuer will be used outside the PRC. In addition, the Cross-border Guarantee Provisions provide that, without obtaining the SAFE’s approval, proceeds raised by the Issuer under the Notes may only be used for the purposes of overseas projects and may not be used to support the Issuer to engage in transactions beyond its normal scope of business, to fabricate a scope of business for the purposes of interest arbitrage, or for other forms of speculative transactions.*

*Under the Indentures, upon completion of registration of the Guarantees with the Beijing Branch, the Guarantor is required to deliver an officer’s certificate attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is a true and correct copy. If the registration is not completed by 120 Beijing Business Days after the closing date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Dollar Notes at a price equal to 100% of the principal amount of the Dollar Notes, plus accrued and unpaid interest to but excluding the date of repurchase, as described below under “— Repurchase upon Occurrence of Certain Events.”*

*The Guarantees will be governed by the laws of the State of New York.*

*The Guarantor intends to execute and register the Guarantees as soon as reasonably practicable after the closing date of the offering.*

## Further Issues

The 2020 Notes will be issued in an initial aggregate principal amount of US\$2,500,000,000, the 2025 Notes will be issued in an initial aggregate principal amount of US\$1,500,000,000 and the 2045 Notes will be issued in an initial aggregate principal amount of US\$800,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Dollar Notes, create and issue pursuant to the Indentures, additional notes of a series having the same terms and conditions under each respective Indenture as the previously outstanding Dollar Notes of a relevant series in all respects, except for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Dollar Notes of the relevant series; *provided, however*, that such additional notes may have the same CUSIP, ISIN, Common Code or other identifying number as the outstanding Dollar Notes of the relevant series only if (i) such additional notes are fungible with such Dollar Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “— Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same CUSIP, ISIN, Common Code or other identifying number.

## Additional Amounts

All payments of principal, premium and interest in respect of the Dollar Notes and/or the Guarantees will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC, Hong Kong, the Cayman Islands or any other jurisdiction in which the Guarantor or the Issuer (or any successor to the Guarantor or the Issuer) is organized or tax resident, in each case including any political subdivision, territory or possession thereof, any authority therein having power to tax or any area subject to its jurisdiction (each, a “Relevant Jurisdiction”) or any jurisdiction from or through which any payment is made (together with Relevant Jurisdictions, each, a “Relevant Taxing Jurisdiction”) unless such Taxes are required by law to be withheld or deducted. If any deduction or withholding for any present or future Taxes of the applicable Relevant Taxing Jurisdiction shall at any time be so required, the Guarantor or the Issuer, as the case may be, shall pay such additional amounts (“Additional Amounts”) as will result (after deduction of such Taxes, including Taxes payable in respect of such Additional Amounts) in receipt by each holder of any Dollar Note of such amounts as would have been received by such holder with respect to such Dollar Note or Guarantee, as applicable, had no such withholding or deduction been required; *provided, however*, that no Additional Amounts shall be payable in respect of any Dollar Note:

- (i) to a holder (or to a third party on behalf of a holder) who is liable to such Taxes in respect of such Dollar Note by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Dollar Note;
- (ii) which is surrendered (where required to be surrendered) more than 30 calendar days after the Relevant Date, except to the extent that the holder of it would have been entitled to such Additional Amounts on surrender of such Dollar Note for payment on the last day of such period of 30 calendar days. “Relevant Date” means whichever is the later of (a) the date on

which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Dollar Notes;

- (iii) to a holder (or to a third party on behalf of a holder) who would have been able to avoid such withholding or deduction by duly presenting the Dollar Note (where presentation is required) to another paying agent;
- (iv) with respect to any Taxes that would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer or the Guarantor addressed to the holder to provide certification or information concerning the nationality, residence or identity of the holder or beneficial owner of the Dollar Note, if due and timely compliance is required as a precondition to relief or exemption from the tax, duty assessment or governmental charge under the laws (not including treaties) of the Relevant Taxing Jurisdiction;
- (v) with respect to any withholding or deduction that is imposed or levied on a payment pursuant to European Council Directive 2003/48/EC or any other Directive supplementing, implementing or replacing such Directive or any law implementing or complying with, or introduced in order to conform to, such Directive or Directives;
- (vi) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other similar governmental charge;
- (vii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Dollar Note or Guarantee;
- (viii) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (“FATCA”), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA or any law enacted by such other jurisdiction to give effect to such agreement, or any agreement with the U.S. Internal Revenue Service under FATCA; or
- (ix) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding items (i) through (viii) above.

Additional Amounts will not be paid with respect to any payment of the principal of or any premium or interest on any Dollar Note or under the respective Guarantee to any holder of a Dollar Note who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that payment would be required by the laws of the Relevant Taxing Jurisdiction to be included in the income of a beneficiary or settlor with respect to the fiduciary, a member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Dollar Note or Guarantee, such mention shall be deemed to include the payment of Additional Amounts provided for in each respective Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

## **Redemption**

Unless earlier redeemed in the limited circumstances set forth below under “— Optional Redemption” and “— Optional Tax Redemption,” the 2020 Notes will mature on April 28, 2020, the 2025 Notes will mature on April 28, 2025 and the 2045 Notes will mature on April 28, 2045, at a price equal to 100% of the principal amount thereof and the Dollar Notes will not be otherwise redeemable at the option of the Issuer.

### ***Optional Redemption***

The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem any of the 2020 Notes, the 2025 Notes and the 2045 Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the applicable Dollar Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Dollar Notes to be redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of 12 30-day months) at the Treasury Rate plus 20 basis points in the case of the 2020 Notes, 25 basis points in the case of the 2025 Notes and 25 basis points in the case of 2045 Notes, in each case plus, accrued and unpaid interest on the applicable Dollar Notes to be redeemed, if any, to (but not including) the date of redemption.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Dollar Notes to be redeemed. “Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Guarantor.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the definition of “Treasury Rate” below is applicable, the average of three (or such lesser number as is obtained by the Guarantor) Reference Treasury Dealer Quotations for such redemption date.

“New York Business Day” means a day in The City of New York other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to remain closed.

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. government securities dealer in the United States, selected by the Guarantor in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Guarantor, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Guarantor by such Reference Treasury Dealer as of 5:00 p.m., New York City time, on the third New York Business Day preceding such date of redemption.

“Treasury Rate” means, with respect to any date of redemption, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes

yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or the maturity date for the Dollar Notes to be redeemed, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such date of redemption, in each case calculated on the third New York Business Day immediately preceding such redemption date.

### ***Optional Tax Redemption***

Each series of the Dollar Notes may be redeemed, at the option of the Issuer, in whole but not in part, upon notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption and Additional Amounts, if any, if, as a result of any change in or amendment to the laws of a Relevant Jurisdiction or any regulations or rulings promulgated thereunder, or any change in the official interpretation or official application of such laws, regulations or rulings, which change or amendment (i) in the case of the Guarantor or the Issuer becomes effective on or after the date of this offering memorandum and (ii) in the case of any successor to the Guarantor or the Issuer that is organized or tax resident in a jurisdiction that is not a Relevant Jurisdiction as of the original issue date of the Dollar Notes becomes effective on or after the date such successor assumes the Guarantor’s or the Issuer’s obligations, as applicable, under the Dollar Notes and the Indentures,

- (1) the Issuer is or would be required on the next succeeding due date for a payment with respect to such Dollar Notes to pay Additional Amounts with respect to the Dollar Notes as described above under “— Additional Amounts”; or
- (2) the Guarantor is or would be unable, for reasons outside its control, on the next succeeding due date for a payment with respect to such Dollar Notes to procure payment by the Issuer, and with respect to a payment due or to become due under the relevant Guarantee or the Indenture, as the case may be, the Guarantor is or would be required on the next succeeding due date for a payment with respect to such Dollar Notes to pay Additional Amounts as described above under “— Additional Amounts.”

and such obligation cannot be avoided by the use of reasonable measures available to the Guarantor or the Issuer or any successor person, as the case may be.

Notwithstanding anything to the contrary herein, the Guarantor, the Issuer or any successor person may not redeem any series of the Dollar Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer, or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law.

Notice of redemption of the relevant series of the Dollar Notes as provided above shall be given not less than 30 nor more than 60 calendar days prior to the date fixed for redemption. Notice having been given, the Dollar Notes of such series shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to the date

fixed for redemption and any Additional Amounts, at the place or places of payment and in the manner specified in the notice. From and after the date fixed for redemption, if moneys sufficient for the redemption of such Dollar Notes shall have been made available as provided in each respective Indenture for redemption on the date fixed for redemption, the Dollar Notes shall cease to bear interest, and the only right of the holders of the Dollar Notes shall be to receive payment of the redemption price, interest accrued to the date fixed for redemption and Additional Amounts, if any.

### **Repurchase upon a Change of Control Triggering Event**

Upon a Change of Control Triggering Event (as defined below), the Issuer will be required to make an offer to repurchase all of the Dollar Notes at a price in cash equal to 101% of the principal amount of the Dollar Notes to be repurchased, plus accrued and unpaid interest on the principal amount of Dollar Notes being repurchased to but excluding the date of repurchase (a “Change of Control Offer”).

Within 30 calendar days following any Change of Control Triggering Event, the Issuer will be required to give written notice to holders describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase all of the Dollar Notes on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Dollar Notes properly tendered and not withdrawn under its offer.

A holder of Dollar Notes will have no right to require the Issuer to repurchase portions of Dollar Notes if it would result in the issuance of new Dollar Notes, representing the portion not repurchased, in an amount of less than US\$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Dollar Notes pursuant to this covenant.

“Change of Control” means the occurrence, at any time, of any of the following:

- (i) the Guarantor ceasing to own and control directly or indirectly 100% of the Voting Shares of the Issuer; or
- (ii) the government of the People’s Republic of China or Persons controlled by the government of the People’s Republic of China ceasing to own and control directly or indirectly or in combination (through controlled entities) 100% of the Voting Shares of the Guarantor.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

“Investment Grade” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P

or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any United States nationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s, or Fitch or any combination thereof, as the case may be.

“Rating Agencies” means (i) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“S&P”); (ii) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“Moody’s”); (iii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors (“Fitch”); and (iv) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Dollar Notes publicly available, any United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody’s or Fitch used by another Rating Agency. In determining whether the rating of the Dollar Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s and “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “B-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

“Rating Decline” means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Dollar Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: in the event the Dollar Notes are on the Rating Date (i)(a) (x) rated by three Ratings Agencies and (y) rated Investment Grade by at least two of such Rating Agencies, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; (ii)(a) (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies; (iii)(a) (x) rated by one Ratings Agency and (y) rated Investment Grade by such Rating Agency, and (b) cease to be rated Investment Grade by such Rating Agency; (iv)(a) (x) rated by three Ratings Agencies and (y) rated below Investment Grade by at least two of such Rating Agencies, and (b) the rating by at least two of such Rating Agencies shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); (v)(a) (x) rated by two but not more Ratings Agencies and (y) rated below Investment Grade by any such Rating Agency,

and (b) the rating by such Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); (vi)(a) (x) rated by one Ratings Agency and (y) rated below Investment Grade by such Rating Agency, and (b) the rating by such Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); or (vii) not rated by any Rating Agency.

### **Repurchase upon Occurrence of Certain Events**

Upon completion by the Guarantor of registration of the Guarantees with the Beijing Branch, the Guarantor will be required to deliver an officer's certificate in a form set forth in the Indentures attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is true and correct (such registration and delivery of an officer's certificate attaching the Beijing Branch certificate referred to collectively as the "SAFE Completion Event"). If, on the date that is 120 Beijing Business Days after the closing date of the offering, the SAFE Completion Event shall not have occurred (such nonoccurrence, a "SAFE Noncompliance Event"), the Issuer will be required to make an offer to repurchase all of the Dollar Notes at a price in cash equal to 100% of the principal amount of the Dollar Notes repurchased, plus accrued and unpaid interest on the principal amount of the Dollar Notes being repurchased to but excluding the date of repurchase (a "SAFE Noncompliance Offer").

Within 10 calendar days following a SAFE Noncompliance Event, the Issuer will be required to give written notice of the SAFE Noncompliance Offer to holders of the Dollar Notes offering to repurchase all of the Dollar Notes on the date specified in the notice, which date will be no earlier than 25 calendar days and no later than 35 calendar days from the date such notice is given.

A holder of Dollar Notes will have no right to require the Issuer to repurchase portions of Dollar Notes if it would result in the issuance of new Dollar Notes, representing the portion not repurchased, in an amount of less than US\$200,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of the Dollar Notes pursuant to this covenant.

### **Certain Covenants**

#### ***Limitation on Liens***

The Indentures provide that the Guarantor will not, and will not permit the Issuer or any Principal Subsidiary to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Guarantor, the Issuer or such Principal Subsidiary (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Dollar Notes and the Guarantees will be secured either at least equally and ratably with such Relevant Indebtedness or by such other Lien as shall have been approved by the holders of the Dollar Notes as provided in the Indentures, for so long as such Relevant Indebtedness will be so secured; *provided that*, the Guarantor may permit its Principal Subsidiaries to issue secured Relevant Indebtedness so long as (x) such Relevant

Indebtedness is not issued or guaranteed by the Guarantor and (y) after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness of Principal Subsidiaries entered into after the date of the Indentures does not exceed 20% of the Guarantor's Adjusted Consolidated Net Worth.

The foregoing restriction will not apply to:

- (i) any Lien which is in existence prior to the date of the Indentures and any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased);
- (ii) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;
- (iii) any Lien either over any asset acquired after the date of the Indentures which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary or which merges with and into the Guarantor after the date of the Indentures which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased); provided that any such Lien was not incurred in anticipation of such acquisition or of such company becoming the Guarantor's Subsidiary;
- (iv) any Lien created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the date of the Indentures; *provided, however*, that (a) any such Lien shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired); and (b) any such Lien shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;
- (v) any Lien created or outstanding in favor of the Guarantor or any of the Guarantor's Subsidiaries;
- (vi) any Lien on any property or asset to secure all or part of the cost of exploration, drilling, development, production, gathering, processing, marketing of such property or asset or to secure Relevant Indebtedness incurred to provide funds for any such purpose;
- (vii) any Lien arising in connection with industrial revenue, development or similar bonds or other Relevant Indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);
- (viii) any Lien in respect of Relevant Indebtedness of the Guarantor or any of the Guarantor's Subsidiaries with respect to which the Guarantor or such Subsidiary has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Guarantor and the Guarantor's Subsidiary in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full); or

- (ix) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing clauses; provided that such Relevant Indebtedness is not increased and is not secured by any additional property or assets.

### ***Consolidation, Merger and Sale of Assets***

The Indentures provide that neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, is not the surviving entity, or convey, transfer or lease our properties and assets (computed on a consolidated basis) substantially as an entirety to any Person unless:

- (i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation validly existing under the laws of the People's Republic of China, Hong Kong, the Cayman Islands or the British Virgin Islands and such Person expressly assumes by indentures supplemental to the Indentures all the obligations of the Guarantor or the Issuer under the Indentures, the Dollar Notes or the Guarantees, as the case may be;
- (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;
- (iii) any such Person not organized and validly existing under the laws of (or any such Person resident for tax purposes in a jurisdiction other than) the People's Republic of China (in the case of the Guarantor) or the British Virgin Islands or any successor jurisdiction (in the case of the Issuer) shall expressly agree in a supplemental indenture that its jurisdiction of organization or tax residence (or any political subdivision, territory or possession thereof, any taxing authority therein or any area subject to its jurisdiction) will be added to the list of Relevant Taxing Jurisdictions; and
- (iv) if, as a result of the transaction, any property or asset of the Guarantor or any of the Guarantor's Principal Subsidiaries would become subject to a Lien that would not be permitted under "— Certain Covenants — Limitation on Liens" above, the Guarantor, the Issuer or such successor Person takes such steps as shall be necessary to secure the Dollar Notes and the Guarantees at least equally and ratably with the Indebtedness secured by such Lien or by such other Lien as shall have been approved by holders of the Dollar Notes pursuant to the Indentures.

### ***Further Limitation on Issuer's Activities and Related Matters***

For so long as the Dollar Notes are outstanding:

- (i) the Issuer will conduct no business or any other activities other than to finance the business operations of the Guarantor or one or more companies controlled by the Guarantor through the offering, sale or issuance of securities and borrowings of indebtedness and investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor, and any other activities in connection therewith;

- (ii) the Guarantor will cause Sinopec Group Overseas Development Limited (“Holdings”) to remain a “company controlled by the parent company” with respect to the Guarantor as such term is defined in Rule 3a-5 under the U.S. Investment Company Act of 1940, as amended;
- (iii) the Guarantor will cause Holdings to maintain 100% equity ownership of the Issuer; and
- (iv) the Guarantor will cause the Issuer to elect to be treated as a disregarded entity for U.S. federal income tax purposes effective on or before the original issue date of the Dollar Notes and will ensure that Holdings’ previous election to be treated as a disregarded entity for U.S. federal income tax purposes continues to be in effect, and neither the Issuer, Holdings nor the Guarantor will take any action that is inconsistent with the Issuer or Holdings being treated as a disregarded entity for U.S. federal income tax purposes.

***Reports, Statements as to Compliance, and Notices of Default***

For so long as the Dollar Notes are outstanding, the Guarantor will agree in the Indentures to file with the Trustee:

- (i) as soon as they are available, but in any event within 180 calendar days after the end of each fiscal year of the Guarantor, copies of its financial statements in the English language (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of independent accountants; and
- (ii) as soon as they are available, but in any event within 120 calendar days after the end of each first semi-annual fiscal period of the Guarantor, copies of its unaudited financial statements in the English language (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Guarantor, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor, to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the relevant semi-annual period;

*provided that*, if at any time the Capital Stock of the Guarantor is listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognized exchange on which the Guarantor’s capital stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in the English language.

So long as any of the Dollar Notes remain outstanding, the Guarantor will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Guarantor becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officer’s certificate of the Guarantor setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

The Guarantor will agree in the Indentures that, so long as the Dollar Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act or it is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, will furnish, upon the request of any holder of a Dollar Note or of a beneficial interest in a Dollar Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser of a Dollar Note or a beneficial interest in a Dollar Note who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by the holder or beneficial owner with Rule 144A in connection with the resale of the Dollar Note or beneficial interest in the Dollar Note in reliance on Rule 144A.

### ***Other Covenants***

In addition, the Indentures will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding the Issuer’s and Guarantor’s payment of taxes and other claims and the maintenance of an agent for service of process in the Borough of Manhattan, The City of New York.

### **Events of Default**

Each of the following shall constitute an “Event of Default” under the Indentures for the Dollar Notes:

- (i) failure to pay principal of or premium on any Dollar Note of that series on the date such amount is due and payable, upon optional redemption, acceleration or otherwise;
- (ii) failure to pay interest on any Dollar Note of that series within 30 calendar days after the due date for such payment;
- (iii) failure by the Issuer or the Guarantor to comply with its obligations under the covenants described under “— Certain Covenants — Consolidation, Merger and Sale of Assets”, “— Repurchase upon a Change of Control Triggering Event” or “— Repurchase upon Occurrence of Certain Events”;
- (iv) failure to perform any other covenant or agreement of the Guarantor or the Issuer under the Indentures, and such failure continues for 60 calendar days after there has been given, by registered or certified mail, to the Guarantor or the Issuer, as the case may be, by the Trustee or by the holders of at least 25% in aggregate principal amount of the Dollar Notes of that series then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied and stating that such notice is a “Notice of Default” under the relevant Indenture;
- (v) the Guarantees shall cease to be in full force or effect or the Guarantor shall deny or disaffirm its obligations under the Guarantees;
- (vi) if any regulatory, legislative, executive, judicial or constitutional authorization necessary to enable the Issuer or the Guarantor to perform their respective obligations under the Dollar Notes and the Guarantees or the Indentures cease to remain in full force and effect or at any time it otherwise becomes unlawful for the Guarantor or the Issuer to perform any of its payment obligations under the Indentures, the Guarantees or the Dollar Notes;

- (vii) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary, (b) acceleration of the maturity of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary following a default by the Guarantor, the Issuer, or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the Guarantor or the Issuer as provided in each respective Indenture, or (c) failure to pay any amount payable by the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in each respective Indenture; provided, however, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US\$100,000,000 (or its equivalent in any other currency);
- (viii) one or more final judgments or orders for the payment of money are rendered against the Guarantor, the Issuer or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$100,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
- (ix) certain events in bankruptcy, insolvency or reorganization in respect of the Guarantor, the Issuer or any Principal Subsidiary as provided in each respective Indenture;

If an Event of Default (other than an Event of Default described in clause (ix) above) with respect to the Dollar Notes of that series shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Dollar Notes of that series then outstanding by notice as provided in each respective Indenture may declare the principal amount of the Dollar Notes and any accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default in clause (ix) above with respect to the Dollar Notes shall occur, the unpaid principal amount of all the Dollar Notes of that series and any accrued and unpaid interest thereon will automatically, and without any action by the Trustee or any holder of Dollar Notes of that series, become immediately due and payable. After any such acceleration but before a judgment or decree based on acceleration has been obtained, the holders of at least a majority in aggregate principal amount of the Dollar Notes of that series then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal, have been cured or waived as provided in each respective Indenture.

Subject to the provisions of the Indentures relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indentures at the request or direction of any of the holders of Dollar Notes unless such holders shall have offered to the Trustee security and/or indemnity satisfactory to the Trustee. Subject to certain provisions, including those requiring security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Dollar Notes of a series then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Dollar Notes. However, the Trustee may refuse to follow any direction that conflicts with applicable law or the Indentures, that may involve the

Trustee in personal liability or cause it to expend or risk its own funds or otherwise incur any financial liability in following such direction and may take any other action it deems proper that is not inconsistent with any such direction received from holders. No holder of any Dollar Notes of any series will have any right to institute any proceeding, judicial or otherwise, with respect to the Indentures, or for the appointment of a receiver or a trustee, or for any other remedy thereunder unless (i) such holder has previously given to the Trustee written notice of a continuing Event of Default with respect to the Dollar Notes of that series, (ii) the holders of at least 25% in aggregate principal amount of the Dollar Notes of that series then outstanding have made written request, and such holder or holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee, to institute such proceeding as trustee and (iii) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Dollar Notes of that series then outstanding a direction inconsistent with such request, within 60 days after such notice, request or offer. However, such limitations do not apply to a suit instituted by a holder of a Dollar Note for the enforcement of the right to receive payment of the principal of or interest on such Dollar Note on or after the applicable due date specified in such Dollar Note.

The Trustee need not do anything to ascertain whether any Event of Default has occurred or is continuing and will not be responsible to holders or any other person for any loss arising from any failure by it to do so, and the Trustee may assume that no such event has occurred and that each of the Guarantor and the Issuer is performing all their respective obligations under the Indentures and the related Dollar Notes and Guarantees unless the Trustee has received written notice of the occurrence of such event or facts establishing that the Guarantor or the Issuer, as the case may be, is not performing all of its obligations under the Indentures, the Dollar Notes and the Guarantees, as the case may be.

### **Payments for Consent**

Neither the Guarantor nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of any Dollar Notes of any series for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indentures or the Dollar Notes of that series unless such consideration is offered to be paid or agreed to be paid to all holders of the Dollar Notes of that series that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

### **Modification and Waiver**

The Indentures contain provisions permitting the Guarantor, the Issuer and the Trustee, without the consent of the holders of Dollar Notes, to execute supplemental indentures for certain enumerated purposes, including any amendment solely to conform the Indentures to this offering memorandum (as amended and supplemented) and, with the consent of the holders of not less than a majority in aggregate principal amount of the applicable series of Dollar Notes then outstanding under each respective Indenture, to change or modify in any manner the rights of the holders of the Dollar Notes of the applicable series, provided that no such modification or amendment may, without the consent of all holders of the Dollar Notes, among other things:

- (i) change the stated maturity of the Dollar Notes;
- (ii) reduce the principal amount of or payments of interest on any such Dollar Note;

- (iii) change any obligation of the Guarantor or the Issuer to pay Additional Amounts;
- (iv) change the currency or place of payment of the principal of or interest on any such Dollar Note;
- (v) impair the right to institute suit for the enforcement of any payment due on or with respect to any such Dollar Note;
- (vi) reduce the above stated percentage of outstanding Dollar Notes necessary to modify or amend each respective Indenture;
- (vii) reduce the percentage of the aggregate principal amount of outstanding Dollar Notes necessary for waiver of compliance with certain provisions of the Indentures or for waiver of certain defaults;
- (viii) change, in any manner adverse to the interest of holders of the Dollar Notes, the terms and provisions of the Guarantees in respect of the due and punctual payment of principal of and interest on the Dollar Notes;
- (ix) reduce the premium payable upon the redemption or repurchase of any Dollar Note;
- (x) modify such provisions with respect to limitations on the Issuer's activities; or
- (xi) modify such provisions with respect to modification and waiver, which require the consent of the holders of the Dollar Notes as provided in each respective Indenture.

The holders of not less than a majority in aggregate principal amount of the Dollar Notes then outstanding of a series may, on behalf of holders of all the Dollar Notes of that series, waive compliance by the Guarantor or the Issuer with certain restrictive provisions of each respective Indenture. The holders of not less than a majority in aggregate principal amount of the Dollar Notes of a series may on behalf of all holders of Dollar Notes waive any existing or past default under each respective Indenture for the Dollar Notes, except a continuing default in the payment of principal of, or interest on, any Dollar Note then outstanding or in respect of a covenant or provision which under such Indenture cannot be modified or amended without the consent of the holder of each Dollar Note then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Dollar Notes of a series, whether or not they have given consent to such waivers, and on all future holders of such Dollar Notes, whether or not notation of such waivers is made upon such Dollar Notes. Any instrument given by or on behalf of any holder of a Dollar Note in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Dollar Note.

The consent of the holders of any series of the Dollar Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment described in the preceding paragraph becomes effective, the Issuer or the Guarantor will deliver to the holders of such Dollar Notes and the Trustee a notice briefly describing such amendment. However, the failure to give such notice to all holders of such Dollar Notes, or any defect therein, will not impair or affect the validity of the amendment.

## **Defeasance and Discharge**

The Indentures provide that, upon the conditions set forth therein, the Guarantor and the Issuer (i) may each be discharged from all their respective obligations with respect to Dollar Notes (except for certain obligations to exchange or register the transfer of Dollar Notes, to replace stolen, lost or mutilated Dollar Notes, to maintain paying agencies and to hold moneys for payment in trust and to pay Additional Amounts), or (ii) need not comply with certain restrictive covenants of the Dollar Notes (including those described under “— Certain Covenants” (other than as described in “— Further Limitation on Issuer’s Activities and Related Matters”) and the events under paragraphs (iii), (iv), (vii) and (viii) under “— Events of Default”) shall not constitute an Event of Default under the Indenture), in each case upon the deposit in trust with the Trustee for the benefit of the holders of such Dollar Notes of money in U.S. dollars or U.S. Government Obligations (as defined below), or both, which, through the payment of principal and interest thereon in accordance with their terms, will provide money in an amount sufficient to pay the principal of and interest on the Dollar Notes (and any Additional Amounts in respect thereof) in accordance with the terms of the Indentures and the Dollar Notes. Such defeasance or discharge pursuant to clauses (i) and (ii) above may occur only if, among other things, the Guarantor and the Issuer have delivered to the Trustee an opinion of independent legal counsel of recognized standing licensed to practice law in the United States to the effect that beneficial owners of such Dollar Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance or discharge and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such deposit, defeasance or discharge had not occurred, which opinion of counsel in the case of defeasance described in (i) above must be based on a ruling received by the Guarantor or the Issuer from the U.S. Internal Revenue Service or a published ruling of the U.S. Internal Revenue Service or other change in applicable U.S. federal income tax law after the original issue date of the Dollar Notes.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer’s option.

## **Prescription**

Any moneys deposited with or paid to the Trustee or any paying agent of the Dollar Notes, or then held by the Issuer, in trust, for the payment of the principal of or interest on (or any Additional Amount payable in respect of) any Dollar Note and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Guarantor or the Issuer be repaid to the Guarantor or the Issuer, as the case may be, by the Trustee or such paying agent or (if then held by the Issuer) be discharged from such trust, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property law, and the holder of such Dollar Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Guarantor or the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent of the Dollar Notes with respect to such moneys shall thereupon cease.

Under New York law, any legal action upon the Dollar Notes or Guarantees must be commenced within six years after the payment thereof is due. Thereafter, the Dollar Notes or Guarantees will generally become unenforceable.

### **Concerning the Trustee**

Citicorp International Limited will be the Trustee under the Indentures. The corporate trust office of Citicorp International Limited is currently located at 39/F Citibank Tower, 3 Garden Road, Central, Hong Kong. The Issuer will appoint Citibank, N.A., London Branch as Paying Agent, Transfer Agent and Registrar, located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland.

The Indentures provide that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indentures. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the Indentures as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Indentures also provide that the Trustee and any paying or other agent of the Dollar Notes, in their individual or any other capacity, may become the owner or pledgee of Dollar Notes with the same rights it would have if it were not the trustee or such agent and may otherwise deal with the Guarantor and the Issuer and receive, collect, hold and retain collections from the Guarantor and the Issuer with the same rights it would have if it were not the trustee or such agent. All moneys received by the Trustee shall, until used or applied as provided in the Indentures, be held in trust thereunder for the purposes for which they were received and need not be segregated from other funds except to the extent required by law.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indentures for the benefit of the holders unless such holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the calculation or computation of any amount payable under the Dollar Notes and the Guarantees or the verification of any such calculations or computations or any verification of the accuracy or completeness of any certification, opinion or other documents submitted to it by the Issuer or the Guarantor.

### **Indemnification for Judgment Currency Fluctuations**

To the fullest extent permitted by law, the obligations of the Guarantor or the Issuer to any holder of Dollar Notes under the Indentures, the Guarantees or the Dollar Notes, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than U.S. dollars (the "Agreement Currency"), be discharged only to the extent that on the day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Guarantor and the Issuer agree, as a separate obligation and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for the account of the Guarantor or the Issuer, as the case may be, such excess; provided that such holder or the Trustee,

as the case may be, shall not have any obligation to pay any such excess as long as a default by the Guarantor or the Issuer in its obligations under the Indentures or the Dollar Notes has occurred and is continuing, in which case such excess may be applied by such holder or the Trustee, as the case may be, to such obligations.

### **Governing Law and Consent to Jurisdiction**

The Dollar Notes, the Guarantees and the Indentures are governed by and will be construed in accordance with the laws of the State of New York.

The Guarantor and the Issuer will each irrevocably submit to the non-exclusive jurisdiction of any New York state or United States federal court located in the Borough of Manhattan, The City of New York, New York (each a “New York Court”) in any suit, action or proceeding arising out of or relating to the Indentures, the Dollar Notes, the Guarantees or any transaction contemplated thereby, and will irrevocably waive, to the fullest extent permitted by applicable law, any objection to the venue of any such suit, action or proceeding in any such New York Court and any claim of an inconvenient forum.

The Guarantor and the Issuer have appointed China Petroleum & Chemical Corporation USA Representative Office, Suite 610, 410 Park Avenue, New York, NY, 10022, USA, as agent for service of process with respect of any such suit, action or proceeding.

### **Waiver of Immunity**

To the extent that the Guarantor or the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its assets or properties, the Guarantor and the Issuer each irrevocably waives, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Dollar Notes, the Guarantees or the Indentures.

### **Notices**

Notices to holders of the Dollar Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and will be deemed to have been given on the fourth Business Day after the date of mailing. So long as and to the extent that the Dollar Notes are represented by global notes and such global notes are held by DTC, notices to owners of beneficial interests in the global notes may be given by delivery of the relevant notice to DTC for communication by it to entitled account holders.

### **Notes; Delivery and Form**

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg which will affect transfers of interests in the global notes.

The Dollar Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be initially in the form of one or more Regulation S global notes, fully registered without interest coupons, which will be deposited with Citibank N.A., London Branch, as custodian for DTC (in such capacity, the “Custodian”) and registered in the name of Cede & Co., as nominee of DTC, for the accounts of Euroclear and Clearstream, Luxembourg, as participants in DTC.

The Dollar Notes sold to qualified institutional buyers (“QIBs”) in reliance on Rule 144A under the Securities Act will be issued initially in the form of one or more Rule 144A global notes, fully registered without interest coupons, which will be deposited with the Custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

The Dollar Notes will be issued in minimum denominations of US\$200,000 and in integral multiples of US\$1,000 in excess of that amount.

The Dollar Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indentures and will bear a legend regarding such restrictions as set forth under “Transfer Restrictions.” Under certain circumstances, transfers may be made only upon receipt by the Trustee of a written certification (in the form(s) provided in the Indenture).

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indentures) from the transferor to the effect that such transfer is being made to a non-U.S. person as defined in Rule 904 of Regulation S or pursuant to Rule 144 under the Securities Act (if available).

Any beneficial interest in one of the global notes that is transferred to an entity who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Investors may hold their interests in the global notes directly through DTC, Clearstream, Luxembourg or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests in the Regulation S global notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositaries, which are participants in DTC.

Transfers between participants in DTC (the “Participants”) will be effected in the ordinary way in accordance with DTC rules. Transfers between participants in Clearstream, Luxembourg and Euroclear (“Clearstream Participants” and “Euroclear Participants,” respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Persons who are not Participants may beneficially own interests in the global notes held by DTC only through Participants or Indirect Participants (as defined below) (including Euroclear and Clearstream, Luxembourg). So long as Cede & Co., as the nominee of DTC, is the registered owner of the global notes, Cede & Co., for all purposes will be considered the sole holder of such Notes.

Payment of interest on and principal of the global notes will be made to Cede & Co., the nominee for DTC, as the registered owner of the global notes by wire transfer of immediately available funds. None of the Guarantor, the Issuer nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

The Issuer has been informed by DTC that, upon receipt of any payment of interest on or the redemption price of the global notes, DTC will credit Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the global notes as shown on the records of DTC. Payments of interest on and principal of the Dollar Notes held through Clearstream, Luxembourg or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as the case may be, in accordance with the relevant system's rules and procedures. Payments by Participants to owners of beneficial interests in the global notes held through such Participants will be the responsibility of such Participants, as is the case with securities held by broker-dealers, either directly or through nominees, for the accounts of customers and registered in "street name."

Because DTC can only act on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a person having a beneficial interest in the global notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

So long as the Dollar Notes are represented by global notes and such global notes are held on behalf of DTC or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Dollar Notes represented by the applicable global notes for all purposes under the Indentures, including, without limitation, obtaining consents and waivers thereunder, and none of the Guarantor, the Issuer or the Trustee shall be affected by any notice to the contrary. None of the Guarantor, the Trustee or the Issuer shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants (and any such Participants will take actions on behalf of any Indirect Participants) in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable global note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Dollar Notes (including, without limitation, the presentation of Dollar Notes for exchange) only at the direction of one or more Participants and only in respect of the principal amount of the Dollar Notes represented by the global note as to which such Participant or Participants has or have given such direction.

Clearstream, Luxembourg or Euroclear, as the case may be, will take any action permitted to be taken by a holder of Dollar Notes (including, without limitation, the presentation of Dollar Notes for exchange) on behalf of a Clearstream Participant or a Euroclear Participant only in accordance with its relevant rules and procedures and subject to its ability to effect such actions through DTC.

DTC has advised the Issuer as follows:

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic book-entry changes in accounts of its Participants, thereby eliminating the need for the physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (“Indirect Participants”).

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Guarantor, the Issuer or the Trustee will have any responsibility for the performance by DTC, Clearstream, Luxembourg and Euroclear, or their respective Participants or Indirect Participants, of their respective obligations under the rules and procedures governing their operations.

### **Individual Notes**

If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Issuer within 90 calendar days or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Dollar Notes, the Issuer will issue individual notes in certificated, fully registered form in exchange for the global notes.

Subject to the transfer restrictions set forth on the individual notes in certificated form, the holder of such individual notes in certificated form may transfer or exchange such Dollar Notes by surrendering them at the corporate trust office of the Trustee. Prior to any proposed transfer of individual notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Trustee as described under “— Notes; Delivery and Form” above. Upon the transfer, exchange or replacement of individual notes in certificated form not bearing the legend referred to under “Transfer Restrictions,” the Trustee will deliver individual notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual note in certificated form, the Trustee will deliver only individual notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Guarantor or the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Guarantor or the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

## Certain Definitions

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

“*Adjusted Consolidated Net Worth*” means the sum of the Guarantor’s (a) shareholders’ equity as determined under PRC GAAP and (b) Subordinated Indebtedness.

“*Beijing Business Day*” means a day other than a Saturday, Sunday or a day on which the Beijing Branch is authorized or obligated by law or executive order to remain closed.

“*Capital Stock*” means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

“*Indebtedness*” of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (ii) all noncontingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (iii) all Indebtedness of others guaranteed by such Person.

“*Issuer*” means Sinopec Group Overseas Development (2015) Limited.

“*Lien*” means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“*PRC GAAP*” means generally accepted accounting principles in the PRC consistently applied as in effect from time to time.

“*Principal Subsidiary*” at any time shall mean one of the Guarantor’s Subsidiaries

- (i) as to which one or more of the following conditions is/are satisfied:
- (a) its net profit or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor’s consolidated net profit (before taxation and exceptional items); or
  - (b) its net assets or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor’s consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor’s Subsidiary and the Guarantor’s then latest consolidated financial statements, *provided that*: (1) in the

case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Guarantor's Subsidiary which immediately prior to the transfer was a Principal Subsidiary, provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor's Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Guarantor's auditors as to whether or not the Guarantor's Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

"*Relevant Indebtedness*" of any Person means, at any date, Indebtedness that (x) has a final maturity date of one year or more from the date of incurrence or issuance of such Indebtedness and (y) is in the form of, is represented or embodied by, bonds, notes, debentures or other securities which are, or are intended to be, commonly quoted, listed or dealt in or traded on any stock exchange or over-the-counter securities market.

"*Subordinated Indebtedness*" means the Guarantor's indebtedness (including perpetual debt, which the Guarantor is not required to repay) which (i) has a final maturity and a weighted average life to maturity longer than the remaining life to maturity of the Dollar Notes and (ii) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Dollar Notes including (a) a provision that in the event of the Guarantor's bankruptcy, insolvency or other similar proceeding, the holders of the Dollar Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Dollar Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon, (b) a provision that, if an Event of Default has occurred and is continuing under the Indentures, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect

thereof unless or until such Event of Default shall have been cured or waived or shall have ceased to exist, and (c) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Dollar Note is outstanding.

“*Subsidiary*” means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person.

“*Voting Shares*” means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

## DESCRIPTION OF THE EURO NOTES AND GUARANTEES

Each series of the Euro Notes will be issued pursuant to separate Indentures (each an “Indenture” and together the “Indentures”) to be dated as of April 28, 2015 among the Guarantor, the Issuer and Citicorp International Limited as trustee (the “Trustee”) and Citibank N.A., London Branch as paying agent, transfer agent and registrar. A copy of this offering memorandum, the Euro Notes, the Guarantees the articles of association of the Issuer, the financial statements of the Company and the Indentures will be available for inspection in electronic format, or in physical format at the registered office of the Trustee, for the life of this offering memorandum. The holders of a series of the Euro Notes will be bound by, and be deemed to have notice of, all the provisions of the related Indenture.

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

### **General**

The 2018 Euro Notes will be issued in an initial aggregate principal amount of €850,000,000 and will mature on April 27, 2018, and the 2022 Euro Notes will be issued in an initial aggregate principal amount of €650,000,000 and will mature on April 28, 2022, unless the 2018 Euro Notes and the 2022 Euro Notes are repurchased, cancelled or redeemed earlier pursuant to the terms thereof and of each respective Indenture.

The 2018 Euro Notes will bear interest at the rate of 0.50% per annum. The 2022 Euro Notes will bear interest at the rate of 1.00% per annum. Interest on the 2018 Euro Notes will accrue from April 28, 2015 or from and including the most recent 2018 Euro Notes Interest Payment Date (as defined below) to which interest has been paid or provided for, to and excluding the next 2018 Euro Notes Interest Payment Date or the maturity date. The first interest payment will be made on April 27, 2016 in respect of the period from, and including April 28, 2015 to (but not including) April 27, 2016, and thereafter payable annually in arrears on April 27 in each year (the “2018 Euro Notes Interest Payment Date”), to the persons in whose names the Euro Notes are registered at the close of business (whether or not a Business Day) on April 13 (the “2018 Euro Notes Interest Record Date”) immediately preceding a 2018 Euro Notes Interest Payment Date. Interest on the 2022 Euro Notes will accrue from April 28, 2015 or from and including the most recent 2022 Euro Notes Interest Payment Date (as defined below) to which interest has been paid or provided for, to and excluding the next 2022 Euro Notes Interest Payment Date or the maturity date, payable annually in arrears on April 28 in each year (the “2022 Euro Notes Interest Payment Date”), commencing on April 28, 2016, to the persons in whose names the Euro Notes are registered at the close of business (whether or not a Business Day) on April 13 (the “2022 Euro Notes Interest Record Date”) immediately preceding a 2022 Euro Notes Interest Payment Date. If interest shall be calculated for a period of less than a full year, interest shall be calculated on the basis of the actual number of days elapsed divided by 365 or (in the case of a leap year) 366.

In any case where the due date of payment of the principal of or interest on the Euro Notes or the date fixed for redemption of the Euro Notes is not a Business Day (as defined below), then payment of principal or interest shall be made on the next succeeding Business Day with the same force and effect as if made on the due date of payment or the date fixed for redemption, as the case may be, and no interest shall accrue for the period after such date. “Business Day” means a day in London, Hong Kong and the applicable place of payment other than a Saturday, Sunday or a day on which banking institutions are authorized or obligated by law or executive order to remain closed and, in relation to a transaction involving euros, any day the TARGET2 System is open.

The Euro Notes will not be entitled to the benefit of any sinking fund. The Euro Notes shall be denominated in minimum principal amounts of €100,000 and in integral multiples of €1,000 in excess thereof.

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

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

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

The principal of and interest on the Euro Notes will be made by wire transfer or otherwise in immediately available funds and payable in euro or in such other coin or currency of the European Union as of the time of payment is legal tender for the payment of public and private debts.

Payment of the principal of and interest on the Euro Notes will be credited to the respective accounts of the holders of the Euro Notes with Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, *société anonyme* (“Clearstream, Luxembourg”). See “— Notes; Delivery and Form.”

### **Guarantees**

Under the Indentures, the Guarantor will irrevocably and unconditionally guarantee the due and punctual payment of the principal of and interest on, and all other amounts payable under (including any Additional Amounts payable in respect of), the Euro Notes when and as the same shall become due and payable, whether on the stated maturity, upon acceleration, by call for redemption or otherwise. The Guarantor has (i) agreed that its obligations under the Guarantees

will be as if the Guarantor were principal obligor and not merely surety, and will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Euro Notes or the Indentures (other than in respect of the Guarantees) and (ii) waived the Guarantor's right to require the Trustee and the holders of the Euro Notes to pursue or exhaust their legal or equitable remedies against the Issuer prior to exercising its rights under the Guarantees. The Guarantees will not be discharged with respect to any Euro Note except by payment in full of the principal thereof, interest thereon and all other amounts payable thereunder (including any Additional Amounts payable in respect thereof). Moreover, if at any time any amount paid under a Euro Note is rescinded or must otherwise be restored, the rights of the holder of the Euro Note under the relevant Guarantee will be reinstated with respect to such payment as though such payment had not been made. All payments under the Guarantees will be made in euro.

*Guarantees of foreign indebtedness arising from offshore bond issuances by a PRC-incorporated entity are subject to registration by the State Administration of Foreign Exchange of the PRC ("SAFE"). The Guarantor plans to undertake the SAFE registration to discharge its obligations under the Guarantee.*

*The Guarantor understands from its discussion with the SAFE that under PRC law:*

- (i) the Guarantees will be legal, valid and binding obligations of the Guarantor upon execution;*
- (ii) the Guarantor is required to register the Guarantees with the Beijing Branch of the SAFE (the "Beijing Branch") as soon as possible and in any event before the date 15 Beijing Business Days after the execution of the Guarantees. The Guarantees will be enforceable within the PRC against the assets of the Guarantor only upon the completion of administrative registration procedures with the Beijing Branch. See "Risk Factors — Risks Relating to the Notes and the Guarantees — There is uncertainty relating to the enforceability of the Guarantees of the Notes" and "Enforceability of Foreign Judgments and Civil Liabilities"; and*
- (iii) the Guarantees will cover all sums due under the Notes (including any principal, interest and related financial obligations).*

*Pursuant to the Notice on the Promulgation of the Provisions on Foreign Exchange Administration of Cross-border Guarantee issued by the SAFE on May 12, 2014, which became effective on June 1, 2014 (the "Cross-border Guarantee Provisions"), without obtaining the SAFE's approval, all proceeds raised by the Issuer under the Notes outside the PRC may not be remitted into the PRC for any use directly or indirectly through any means, including without limitation, any loan, equity investment or securities investment. Pursuant to the Cross-border Guarantee Provisions, if the SAFE's approval has not been obtained, the Guarantor is responsible for ensuring that the proceeds obtained by the Issuer will be used outside the PRC. In addition, the Cross-border Guarantee Provisions provide that, without obtaining the SAFE's approval, proceeds raised by the Issuer under the Notes may only be used for the purposes of overseas projects and may not be used to support the Issuer to engage in transactions beyond its normal scope of business, to fabricate a scope of business for the purposes of interest arbitrage, or for other forms of speculative transactions.*

*Under the Indentures, upon completion of registration of the Guarantees with the Beijing Branch, the Guarantor is required to deliver an officer's certificate attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is a true and correct copy. If the registration is not completed by 120 Beijing Business Days after the closing*

*date of the offering, the Issuer will be required under the Indentures to make an offer to repurchase all of the Euro Notes at a price equal to 100% of the principal amount of the Euro Notes, plus accrued and unpaid interest to but excluding the date of repurchase, as described below under “— Repurchase upon Occurrence of Certain Events.”*

*The Guarantees will be governed by the laws of the State of New York.*

*The Guarantor intends to execute and register the Guarantees as soon as reasonably practicable after the closing date of the offering.*

## **Further Issues**

The 2018 Notes will be issued in an initial aggregate principal amount of €850,000,000 and the 2022 Notes will be issued in an initial aggregate principal amount of €650,000,000. The Guarantor and the Issuer may, however, from time to time, without the consent of the holders of the Euro Notes, create and issue pursuant to the Indentures, additional notes of a series having the same terms and conditions under each respective Indenture as the previously outstanding Euro Notes of a relevant series in all respects, except for issue date, issue price, and amount of the first payment of interest thereon, and to the extent necessary, certain temporary securities law transfer restrictions. Additional notes issued may be consolidated with and form a single series with the previously outstanding Euro Notes of the relevant series; *provided, however*, that such additional notes may have the same ISIN, Common Code or other identifying number as the outstanding Euro Notes of the relevant series only if (i) such additional notes are fungible with such Euro Notes for U.S. federal income tax purposes and (ii) either registration of the guarantees of such additional notes with the relevant local SAFE branch has been completed prior to the issuance date of such additional notes or a SAFE Completion Event (as defined below under “— Repurchase upon Occurrence of Certain Events”) with respect to such additional notes has occurred prior to the additional notes being assigned the same ISIN, Common Code or other identifying number.

## **Additional Amounts**

All payments of principal, premium and interest in respect of the Euro Notes and/or the Guarantees will be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“Taxes”) imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC, Hong Kong, the Cayman Islands or any other jurisdiction in which the Guarantor or the Issuer (or any successor to the Guarantor or the Issuer) is organized or tax resident, in each case including any political subdivision, territory or possession thereof, any authority therein having power to tax or any area subject to its jurisdiction (each, a “Relevant Jurisdiction”) or any jurisdiction from or through which any payment is made (together with Relevant Jurisdictions, each, a “Relevant Taxing Jurisdiction”) unless such Taxes are required by law to be withheld or deducted. If any deduction or withholding for any present or future Taxes of the applicable Relevant Taxing Jurisdiction shall at any time be so required, the Guarantor or the Issuer, as the case may be, shall pay such additional amounts (“Additional Amounts”) as will result (after deduction of such Taxes, including Taxes payable in respect of such Additional Amounts) in receipt by each holder of any Euro Note of such amounts as would have been

received by such holder with respect to such Euro Note or Guarantee, as applicable, had no such withholding or deduction been required; *provided, however*, that no Additional Amounts shall be payable in respect of any Euro Note:

- (i) to a holder (or to a third party on behalf of a holder) who is liable to such Taxes in respect of such Euro Note by reason of his having some connection with the Relevant Taxing Jurisdiction other than the mere holding of the Euro Note;
- (ii) which is surrendered (where required to be surrendered) more than 30 calendar days after the Relevant Date, except to the extent that the holder of it would have been entitled to such Additional Amounts on surrender of such Euro Note for payment on the last day of such period of 30 calendar days. “Relevant Date” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Euro Notes;
- (iii) to a holder (or to a third party on behalf of a holder) who would have been able to avoid such withholding or deduction by duly presenting the Euro Note (where presentation is required) to another paying agent;
- (iv) with respect to any Taxes that would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer or the Guarantor addressed to the holder to provide certification or information concerning the nationality, residence or identity of the holder or beneficial owner of the Euro Note, if due and timely compliance is required as a precondition to relief or exemption from the tax, duty assessment or governmental charge under the laws (not including treaties) of the Relevant Taxing Jurisdiction;
- (v) with respect to any withholding or deduction that is imposed or levied on a payment pursuant to European Council Directive 2003/48/EC or any other Directive supplementing, implementing or replacing such Directive or any law implementing or complying with, or introduced in order to conform to, such Directive or Directives;
- (vi) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other similar governmental charge;
- (vii) any such Taxes payable otherwise than by deduction or withholding from payments under or with respect to any Euro Note or Guarantee;
- (viii) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (“FATCA”), any current or future Treasury Regulations or rulings promulgated thereunder, any law, regulation or other official guidance enacted in any jurisdiction implementing FATCA, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA or any law enacted by such other jurisdiction to give effect to such agreement, or any agreement with the U.S. Internal Revenue Service under FATCA; or
- (ix) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding items (i) through (viii) above.

Additional Amounts will not be paid with respect to any payment of the principal of or any premium or interest on any Euro Note or under the respective Guarantee to any holder of a Euro Note who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that payment would be required by the laws of the Relevant Taxing Jurisdiction to be included in the income of a beneficiary or settlor with respect to the fiduciary, a member of that partnership or a beneficial owner who would not have been entitled to the Additional Amounts had that beneficiary, settlor, member or beneficial owner been the holder.

Whenever there is mentioned, in any context, the payment of principal, premium or interest in respect of any Euro Note or Guarantee, such mention shall be deemed to include the payment of Additional Amounts provided for in each respective Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof pursuant to the Indenture.

## **Redemption**

Unless earlier redeemed in the limited circumstances set forth below under “— Optional Redemption” and “— Optional Tax Redemption,” the 2018 Euro Notes will mature on April 27, 2018 and the 2022 Euro Notes will mature on April 28, 2022 at a price equal to 100% of the principal amount thereof and the Euro Notes will not be otherwise redeemable at the option of the Issuer.

### ***Optional Redemption***

The Guarantor or the Issuer may, at the Guarantor’s option, at any time and from time to time redeem any of the 2018 Euro Notes and the 2022 Euro Notes, in whole or in part, on not less than 30 nor more than 60 days’ prior notice. The applicable Euro Notes will be redeemable at a redemption price equal to the greater of (1) 100% of the principal amount of the applicable Euro Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the applicable Euro Notes to be redeemed (not including interest accrued to the date of redemption), discounted to the date of redemption on an annual basis at the Comparable Government Bond Rate plus 15 basis points in the case of 2018 Notes and 20 basis points in the case of 2022 Notes, in each case plus, accrued and unpaid interest on the Euro Notes to be redeemed, if any, to (but not including) the date of redemption.

“Comparable Government Bond” means, in relation to any Comparable Government Bond Rate calculation, at the discretion of the Independent Investment Bank, a German *Bundesanleihe* security whose maturity is closest to the maturity of the Euro Notes, or if such Independent Investment Bank in its discretion considers that such similar bond is not in issue, such other German *Bundesanleihe* security as such Independent Investment Bank may, with the advice of three brokers of, and/or market makers in, German *Bundesanleihe* securities selected by such Independent Investment Bank, determine to be appropriate for determining the Comparable Government Bond Rate.

“Comparable Government Bond Rate” means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the gross redemption yield on the Euro Notes, if they were to be purchased at such price on the third London Business Day prior to the date fixed for redemption or the date of accelerated payment, would be equal to the gross redemption yield on such London Business Day of the Comparable Government Bond on the basis of the middle market price of the Comparable Government Bond prevailing at 11:00 a.m. (London time) on such London Business Day as determined by the Independent Investment Bank.

“Independent Investment Bank” means an investment bank of recognized standing that is a primary dealer in German *Bundesanleihe* securities, selected by the Guarantor in good faith.

“London Business Day” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London.

### ***Optional Tax Redemption***

Each series of the Euro Notes may be redeemed, at the option of the Issuer, in whole but not in part, upon notice as described below, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption and Additional Amounts, if any, if, as a result of any change in or amendment to the laws of a Relevant Jurisdiction or any regulations or rulings promulgated thereunder, or any change in the official interpretation or official application of such laws, regulations or rulings, which change or amendment (i) in the case of the Guarantor or the Issuer becomes effective on or after the date of this offering memorandum and (ii) in the case of any successor to the Guarantor or the Issuer that is organized or tax resident in a jurisdiction that is not a Relevant Jurisdiction as of the original issue date of the Euro Notes becomes effective on or after the date such successor assumes the Guarantor’s or the Issuer’s obligations, as applicable, under the Euro Notes and the Indentures,

- (1) the Issuer is or would be required on the next succeeding due date for a payment with respect to such Euro Notes to pay Additional Amounts with respect to the Euro Notes as described above under “— Additional Amounts”; or
- (2) the Guarantor is or would be unable, for reasons outside its control, on the next succeeding due date for a payment with respect to such Euro Notes to procure payment by the Issuer, and with respect to a payment due or to become due under the relevant Guarantee or the Indenture, as the case may be, the Guarantor is or would be required on the next succeeding due date for a payment with respect to such Euro Notes to pay Additional Amounts as described above under “— Additional Amounts.”

and such obligation cannot be avoided by the use of reasonable measures available to the Guarantor or the Issuer or any successor person, as the case may be.

Notwithstanding anything to the contrary herein, the Guarantor, the Issuer or any successor person may not redeem any series of the Euro Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Guarantor, the Issuer, or a successor person being considered a PRC tax resident under the PRC Enterprise Income Tax Law.

Notice of redemption of the relevant series of the Euro Notes as provided above shall be given not less than 30 nor more than 60 calendar days prior to the date fixed for redemption. Notice having been given, the Euro Notes of such series shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to the date fixed for redemption and any Additional Amounts, at the place or places of payment and in the manner specified in the notice. From and after the date fixed for redemption, if moneys sufficient for the redemption of such Euro Notes shall have been made available as provided in each respective Indenture for redemption on the date fixed for redemption, the Euro Notes shall cease to bear interest, and the only right of the holders of the Euro Notes shall be to receive payment of the redemption price, interest accrued to the date fixed for redemption and Additional Amounts, if any.

## **Repurchase upon a Change of Control Triggering Event**

Upon a Change of Control Triggering Event (as defined below), the Issuer will be required to make an offer to repurchase all of the Euro Notes at a price in cash equal to 101% of the principal amount of the Euro Notes to be repurchased, plus accrued and unpaid interest on the principal amount of Euro Notes being repurchased to but excluding the date of repurchase (a “Change of Control Offer”).

Within 30 calendar days following any Change of Control Triggering Event, the Issuer will be required to give written notice to holders describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase all of the Euro Notes on the date specified in the notice, which date will be no earlier than 30 calendar days and no later than 60 calendar days from the date such notice is given.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Euro Notes properly tendered and not withdrawn under its offer.

A holder of Euro Notes will have no right to require the Issuer to repurchase portions of Euro Notes if it would result in the issuance of new Euro Notes, representing the portion not repurchased, in an amount of less than €100,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of Euro Notes pursuant to this covenant.

“Change of Control” means the occurrence, at any time, of any of the following:

- (i) the Guarantor ceasing to own and control directly or indirectly 100% of the Voting Shares of the Issuer; or
- (ii) the government of the People’s Republic of China or Persons controlled by the government of the People’s Republic of China ceasing to own and control directly or indirectly or in combination (through controlled entities) 100% of the Voting Shares of the Guarantor.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline (as defined below). No Change of Control Triggering Event will be deemed to have occurred in connection with any particular Change of Control unless and until such Change of Control has actually been consummated.

“Investment Grade” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns; a rating of “Aaa”, “Aa”, “A” or “Baa”, as modified by a “1”, “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns; a rating of “BBB-” or better by Fitch or any of its successors or assigns; or the equivalent ratings of any United States nationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P, Moody’s, or Fitch or any combination thereof, as the case may be.

“Rating Agencies” means (i) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“S&P”); (ii) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“Moody’s”); (iii) Fitch Inc., a subsidiary of Fimalac, S.A., and its successors (“Fitch”); and (iv) if one or more of S&P, Moody’s or Fitch shall not make a rating of the Euro Notes publicly available, any United States nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P, Moody’s or Fitch or any combination thereof, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); (3) with respect to Fitch, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); and (4) the equivalent of any such category of S&P, Moody’s or Fitch used by another Rating Agency. In determining whether the rating of the Euro Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P; “1,” “2” and “3” for Moody’s and “+” and “-” for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “B-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means, in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (i) a Change of Control and (ii) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control.

“Rating Decline” means, in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other person or persons to effect a Change of Control (which period shall be extended (by no more than an additional three months after the consummation of the Change of Control) so long as the rating of the Euro Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below: in the event the Euro Notes are on the Rating Date (i)(a) (x) rated by three Ratings Agencies and (y) rated Investment Grade by at least two of such Rating Agencies, and (b) cease to be rated Investment Grade by at least two of such Rating Agencies; (ii)(a) (x) rated by two but not more Ratings Agencies and (y) rated Investment Grade by each such Rating Agency, and (b) cease to be rated Investment Grade by both such Rating Agencies; (iii)(a) (x) rated by one Ratings Agency and (y) rated Investment Grade by such Rating Agency, and (b) cease to be rated Investment Grade by such Rating Agency; (iv)(a) (x) rated by three Ratings Agencies and (y) rated below Investment Grade by at least two such Rating Agencies, and (b) the rating by at least two of such Rating Agencies shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); (v)(a) (x) rated by two but not more Ratings Agencies and (y) rated below Investment Grade by any such Rating Agency, and (b) the rating by such Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); (vi)(a) (x) rated by one Ratings Agency and (y) rated below Investment Grade by such Rating Agency, and (b) the rating by such Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories); or (vii) not rated by any Rating Agency.

## **Repurchase upon Occurrence of Certain Events**

Upon completion by the Guarantor of registration of the Guarantees with the Beijing Branch, the Guarantor will be required to deliver an officer's certificate in a form set forth in the Indentures attaching a copy of the relevant certificate of registration from the Beijing Branch and certifying that such copy is true and correct (such registration and delivery of an officer's certificate attaching the Beijing Branch certificate referred to collectively as the "SAFE Completion Event"). If, on the date that is 120 Beijing Business Days after the closing date of the offering, the SAFE Completion Event shall not have occurred (such nonoccurrence, a "SAFE Noncompliance Event"), the Issuer will be required to make an offer to repurchase all of the Euro Notes at a price in cash equal to 100% of the principal amount of the Euro Notes repurchased, plus accrued and unpaid interest on the principal amount of the Euro Notes being repurchased to but excluding the date of repurchase (a "SAFE Noncompliance Offer").

Within 10 calendar days following a SAFE Noncompliance Event, the Issuer will be required to give written notice of the SAFE Noncompliance Offer to holders of the Euro Notes offering to repurchase all of the Euro Notes on the date specified in the notice, which date will be no earlier than 25 calendar days and no later than 35 calendar days from the date such notice is given.

A holder of Euro Notes will have no right to require the Issuer to repurchase portions of Euro Notes if it would result in the issuance of new Euro Notes, representing the portion not repurchased, in an amount of less than €100,000.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the repurchase of the Euro Notes pursuant to this covenant.

## **Certain Covenants**

### ***Limitation on Liens***

The Indentures provide that the Guarantor will not, and will not permit the Issuer or any Principal Subsidiary to, create, incur, assume or permit to exist any Lien upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness of the Guarantor, the Issuer or such Principal Subsidiary (or any guarantee or indemnity in respect thereof) without, in any such case, making effective provision whereby the Euro Notes and the Guarantees will be secured either at least equally and ratably with such Relevant Indebtedness or by such other Lien as shall have been approved by the holders of the Euro Notes as provided in the Indentures, for so long as such Relevant Indebtedness will be so secured; *provided that*, the Guarantor may permit its Principal Subsidiaries to issue secured Relevant Indebtedness so long as (x) such Relevant Indebtedness is not issued or guaranteed by the Guarantor and (y) after giving effect to the issuance thereof, the aggregate outstanding principal amount of all such secured Relevant Indebtedness of Principal Subsidiaries entered into after the date of the Indentures does not exceed 20% of the Guarantor's Adjusted Consolidated Net Worth.

The foregoing restriction will not apply to:

- (i) any Lien which is in existence prior to the date of the Indentures and any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased);

- (ii) any Lien arising or already arisen automatically by operation of law which is promptly discharged or disputed in good faith by appropriate proceedings;
- (iii) any Lien either over any asset acquired after the date of the Indentures which is in existence at the time of such acquisition or in respect of the obligations of any Person which becomes the Guarantor's Subsidiary or which merges with and into the Guarantor after the date of the Indentures which is in existence at the date on which it becomes the Guarantor's Subsidiary and in both cases any replacement thereof created in connection with the refinancing (together with interest, fees and other charges attributable thereto) of the Relevant Indebtedness originally secured (but the principal amount secured by any such Lien may not be increased); *provided that* any such Lien was not incurred in anticipation of such acquisition or of such company becoming the Guarantor's Subsidiary;
- (iv) any Lien created on any property or asset acquired, leased or developed (including improved, constructed, altered or repaired) after the date of the Indentures; *provided, however,* that (a) any such Lien shall be confined to the property or asset acquired, leased or developed (including improved, constructed, altered or repaired); and (b) any such Lien shall be created concurrently with or within two years following the acquisition, lease or development (including construction, improvement, repair or alteration) of such property or asset;
- (v) any Lien created or outstanding in favor of the Guarantor or any of the Guarantor's Subsidiaries;
- (vi) any Lien on any property or asset to secure all or part of the cost of exploration, drilling, development, production, gathering, processing, marketing of such property or asset or to secure Relevant Indebtedness incurred to provide funds for any such purpose;
- (vii) any Lien arising in connection with industrial revenue, development or similar bonds or other Relevant Indebtedness or means of project financing (not to exceed the value of the project financed and limited to the project financed);
- (viii) any Lien in respect of Relevant Indebtedness of the Guarantor or any of the Guarantor's Subsidiaries with respect to which the Guarantor or such Subsidiary has paid money or deposited money or securities with a fiscal agent, trustee or depository to pay or discharge in full the obligations of the Guarantor and the Guarantor's Subsidiary in respect thereof (other than the obligation that such money or securities so paid or deposited, and the proceeds therefrom, be sufficient to pay or discharge such obligations in full); or
- (ix) any Lien arising out of the refinancing, extension, renewal or refunding of any Relevant Indebtedness secured by any Lien permitted by any of the foregoing clauses; *provided that* such Relevant Indebtedness is not increased and is not secured by any additional property or assets.

### ***Consolidation, Merger and Sale of Assets***

The Indentures provide that neither the Guarantor nor the Issuer may consolidate with or merge into any other Person in a transaction in which the Guarantor or the Issuer, as the case may be, is not the surviving entity, or convey, transfer or lease our properties and assets (computed on a consolidated basis) substantially as an entirety to any Person unless:

- (i) any Person formed by such consolidation or into which the Guarantor or the Issuer, as the case may be, is merged or to whom the Guarantor or the Issuer, as the case may be, has conveyed, transferred or leased its properties and assets substantially as an entirety is a corporation validly existing under the laws of the People's Republic of China, Hong Kong, the Cayman Islands or the British Virgin Islands and such Person expressly assumes by indentures supplemental to the Indentures all the obligations of the Guarantor or the Issuer under the Indentures, the Euro Notes or the Guarantees, as the case may be;
- (ii) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;
- (iii) any such Person not organized and validly existing under the laws of (or any such Person resident for tax purposes in a jurisdiction other than) the People's Republic of China (in the case of the Guarantor) or the British Virgin Islands or any successor jurisdiction (in the case of the Issuer) shall expressly agree in a supplemental indenture that its jurisdiction of organization or tax residence (or any political subdivision, territory or possession thereof, any taxing authority therein or any area subject to its jurisdiction) will be added to the list of Relevant Taxing Jurisdictions; and
- (iv) if, as a result of the transaction, any property or asset of the Guarantor or any of the Guarantor's Principal Subsidiaries would become subject to a Lien that would not be permitted under "— Certain Covenants — Limitation on Liens" above, the Guarantor, the Issuer or such successor Person takes such steps as shall be necessary to secure the Euro Notes and the Guarantees at least equally and ratably with the Indebtedness secured by such Lien or by such other Lien as shall have been approved by holders of the Euro Notes pursuant to the Indentures.

### ***Further Limitation on Issuer's Activities and Related Matters***

For so long as the Euro Notes are outstanding:

- (i) the Issuer will conduct no business or any other activities other than to finance the business operations of the Guarantor or one or more companies controlled by the Guarantor through the offering, sale or issuance of securities and borrowings of indebtedness and investing in or lending the proceeds thereof to the Guarantor or a company controlled by the Guarantor, and any other activities in connection therewith;
- (ii) the Guarantor will cause Sinopec Group Overseas Development Limited ("Holdings") to remain a "company controlled by the parent company" with respect to the Guarantor as such term is defined in Rule 3a-5 under the U.S. Investment Company Act of 1940, as amended;
- (iii) the Guarantor will cause Holdings to maintain 100% equity ownership of the Issuer; and

- (iv) the Guarantor will cause the Issuer to elect to be treated as a disregarded entity for U.S. federal income tax purposes effective on or before the original issue date of the Euro Notes and will ensure that Holdings' previous election to be treated as a disregarded entity for U.S. federal income tax purposes continues to be in effect, and neither the Issuer, Holdings nor the Guarantor will take any action that is inconsistent with the Issuer or Holdings being treated as a disregarded entity for U.S. federal income tax purposes.

***Reports, Statements as to Compliance, and Notices of Default***

For so long as the Euro Notes are outstanding, the Guarantor will agree in the Indentures to file with the Trustee:

- (i) as soon as they are available, but in any event within 180 calendar days after the end of each fiscal year of the Guarantor, copies of its financial statements in the English language (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of independent accountants; and
- (ii) as soon as they are available, but in any event within 120 calendar days after the end of each first semi-annual fiscal period of the Guarantor, copies of its unaudited financial statements in the English language (on a consolidated basis) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Guarantor, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Guarantor, to the effect that such financial statements are true in all material respects and present fairly the financial position of the Guarantor, as at the end of, and the results of its operations for, the relevant semi-annual period;

*provided that*, if at any time the Capital Stock of the Guarantor is listed for trading on a recognized stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Guarantor are filed with any recognized exchange on which the Guarantor's capital stock is at any time listed for trading, true and correct copies of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above, if such financial or other report is in the English language.

So long as any of the Euro Notes remain outstanding, the Guarantor will file with the Trustee, as soon as possible and in any event within 10 calendar days after the Guarantor becomes aware of the occurrence thereof, written notice of the occurrence of any event or condition which constitutes, or which, after notice or lapse of time or both, would become, an Event of Default and an officer's certificate of the Guarantor setting forth the details thereof and the action the Guarantor is taking or proposes to take with respect thereto.

The Guarantor will agree in the Indentures that, so long as the Euro Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Guarantor, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act or it is not exempt from such reporting requirements pursuant to and in compliance with Rule 12g3-2(b) under the Exchange Act, will furnish, upon the request of any holder of a Euro Note or of a beneficial interest in a Euro Note, such information as is specified in paragraph (d)(4) of Rule 144A, to such holder or beneficial owner or to a prospective purchaser

of a Euro Note or a beneficial interest in a Euro Note who is a qualified institutional buyer within the meaning of Rule 144A, in order to permit compliance by the holder or beneficial owner with Rule 144A in connection with the resale of the Euro Note or beneficial interest in the Euro Note in reliance on Rule 144A.

### ***Other Covenants***

In addition, the Indentures will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding the Issuer's and Guarantor's payment of taxes and other claims and the maintenance of an agent for service of process in the Borough of Manhattan, The City of New York.

### **Events of Default**

Each of the following shall constitute an "Event of Default" under the Indentures for the Euro Notes:

- (i) failure to pay principal of or premium on any Euro Note of that series on the date such amount is due and payable, upon optional redemption, acceleration or otherwise;
- (ii) failure to pay interest on any Euro Note of that series within 30 calendar days after the due date for such payment;
- (iii) failure by the Issuer or the Guarantor to comply with its obligations under the covenants described under "— Certain Covenants — Consolidation, Merger and Sale of Assets", "— Repurchase upon a Change of Control Triggering Event" or "— Repurchase upon Occurrence of Certain Events";
- (iv) failure to perform any other covenant or agreement of the Guarantor or the Issuer under the Indentures, and such failure continues for 60 calendar days after there has been given, by registered or certified mail, to the Guarantor or the Issuer, as the case may be, by the Trustee or by the holders of at least 25% in aggregate principal amount of the Euro Notes of that series then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the relevant Indenture;
- (v) the Guarantees shall cease to be in full force or effect or the Guarantor shall deny or disaffirm its obligations under the Guarantees;
- (vi) if any regulatory, legislative, executive, judicial or constitutional authorization necessary to enable the Issuer or the Guarantor to perform their respective obligations under the Euro Notes and the Guarantees or the Indentures cease to remain in full force and effect or at any time it otherwise becomes unlawful for the Guarantor or the Issuer to perform any of its payment obligations under the Indentures, the Guarantees or the Euro Notes;
- (vii) (a) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary, (b) acceleration of the maturity of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary following a default by the Guarantor, the Issuer, or such Principal Subsidiary, if such Indebtedness is not discharged, or such acceleration is not annulled, within 10 calendar days after receipt by the Trustee of the written notice from the

Guarantor or the Issuer as provided in each respective Indenture, or (c) failure to pay any amount payable by the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person if such obligation is not discharged or otherwise satisfied within 10 calendar days after receipt by the Trustee of written notice as provided in each respective Indenture; *provided, however*, that no such event set forth in clause (a), (b) or (c) shall constitute an Event of Default unless the aggregate outstanding Indebtedness to which all such events relate exceeds US\$100,000,000 (or its equivalent in any other currency);

- (viii) one or more final judgments or orders for the payment of money are rendered against the Guarantor, the Issuer or any Principal Subsidiary and are not paid or discharged, and there is a period of 30 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$100,000,000 (or its equivalent in any other currency) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect; or
- (ix) certain events in bankruptcy, insolvency or reorganization in respect of the Guarantor, the Issuer or any Principal Subsidiary as provided in each respective Indenture.

If an Event of Default (other than an Event of Default described in clause (ix) above) with respect to the Euro Notes of that series shall occur and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Euro Notes of that series then outstanding by notice as provided in each respective Indenture may declare the principal amount of the Euro Notes and any accrued and unpaid interest thereon to be due and payable immediately. If an Event of Default in clause (ix) above with respect to the Euro Notes shall occur, the unpaid principal amount of all the Euro Notes of that series and any accrued and unpaid interest thereon will automatically, and without any action by the Trustee or any holder of Euro Notes of that series, become immediately due and payable. After any such acceleration but before a judgment or decree based on acceleration has been obtained, the holders of at least a majority in aggregate principal amount of the Euro Notes of that series then outstanding may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal, have been cured or waived as provided in each respective Indenture.

Subject to the provisions of the Indentures relating to the duties of the Trustee, in case an Event of Default shall occur and be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indentures at the request or direction of any of the holders of Euro Notes unless such holders shall have offered to the Trustee security and/or indemnity satisfactory to the Trustee. Subject to certain provisions, including those requiring security and/or indemnification of the Trustee, the holders of a majority in aggregate principal amount of the Euro Notes of a series then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Euro Notes. However, the Trustee may refuse to follow any direction that conflicts with applicable law or the Indentures, that may involve the Trustee in personal liability or cause it to expend or risk its own funds or otherwise incur any financial liability in following such direction and may take any other action it deems proper that is not inconsistent with any such direction received from holders. No holder of any Euro Notes of any series will have any right to institute any proceeding, judicial or otherwise, with respect to the Indentures, or for the appointment of a receiver or a trustee, or for any other remedy thereunder unless (i) such holder has previously given to the Trustee written notice of a continuing Event of

Default with respect to the Euro Notes of that series, (ii) the holders of at least 25% in aggregate principal amount of the Euro Notes of that series then outstanding have made written request, and such holder or holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee, to institute such proceeding as trustee and (iii) the Trustee has failed to institute such proceeding, and has not received from the holders of a majority in aggregate principal amount of the Euro Notes of that series then outstanding a direction inconsistent with such request, within 60 days after such notice, request or offer. However, such limitations do not apply to a suit instituted by a holder of a Euro Note for the enforcement of the right to receive payment of the principal of or interest on such Euro Note on or after the applicable due date specified in such Euro Note.

The Trustee need not do anything to ascertain whether any Event of Default has occurred or is continuing and will not be responsible to holders or any other person for any loss arising from any failure by it to do so, and the Trustee may assume that no such event has occurred and that each of the Guarantor and the Issuer is performing all their respective obligations under the Indentures and the related Euro Notes and Guarantees unless the Trustee has received written notice of the occurrence of such event or facts establishing that the Guarantor or the Issuer, as the case may be, is not performing all of its obligations under the Indentures, the Euro Notes and the Guarantees, as the case may be.

### **Payments for Consent**

Neither the Guarantor nor any of its Subsidiaries will, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any holder of any Euro Notes of any series for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indentures or the Euro Notes of that series unless such consideration is offered to be paid or agreed to be paid to all holders of the Euro Notes of that series that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

### **Modification and Waiver**

The Indentures contain provisions permitting the Guarantor, the Issuer and the Trustee, without the consent of the holders of Euro Notes, to execute supplemental indentures for certain enumerated purposes, including any amendment solely to conform the Indentures to this offering memorandum (as amended and supplemented) and, with the consent of the holders of not less than a majority in aggregate principal amount of the applicable series of Euro Notes then outstanding under each respective Indenture, to change or modify in any manner the rights of the holders of the Euro Notes of the applicable series, *provided that* no such modification or amendment may, without the consent of all holders of the Euro Notes, among other things:

- (i) change the stated maturity of the Euro Notes;
- (ii) reduce the principal amount of or payments of interest on any such Euro Note;
- (iii) change any obligation of the Guarantor or the Issuer to pay Additional Amounts;
- (iv) change the currency or place of payment of the principal of or interest on any such Euro Note;
- (v) impair the right to institute suit for the enforcement of any payment due on or with respect to any such Euro Note;

- (vi) reduce the above stated percentage of outstanding Euro Notes necessary to modify or amend each respective Indenture;
- (vii) reduce the percentage of the aggregate principal amount of outstanding Euro Notes necessary for waiver of compliance with certain provisions of the Indentures or for waiver of certain defaults;
- (viii) change, in any manner adverse to the interest of holders of the Euro Notes, the terms and provisions of the Guarantees in respect of the due and punctual payment of principal of and interest on the Euro Notes;
- (ix) reduce the premium payable upon the redemption or repurchase of any Euro Note;
- (x) modify such provisions with respect to limitations on the Issuer's activities; or
- (xi) modify such provisions with respect to modification and waiver, which require the consent of the holders of the Euro Notes as provided in each respective Indenture.

The holders of not less than a majority in aggregate principal amount of the Euro Notes then outstanding of a series may, on behalf of holders of all the Euro Notes of that series, waive compliance by the Guarantor or the Issuer with certain restrictive provisions of each respective Indenture. The holders of not less than a majority in aggregate principal amount of the Euro Notes of a series may on behalf of all holders of Euro Notes waive any existing or past default under each respective Indenture for the Euro Notes, except a continuing default in the payment of principal of, or interest on, any Euro Note then outstanding or in respect of a covenant or provision which under such Indenture cannot be modified or amended without the consent of the holder of each Euro Note then outstanding affected thereby. Any such waivers will be conclusive and binding on all holders of the Euro Notes of a series, whether or not they have given consent to such waivers, and on all future holders of such Euro Notes, whether or not notation of such waivers is made upon such Euro Notes. Any instrument given by or on behalf of any holder of a Euro Note in connection with any consent to any such waiver will be irrevocable once given and will be conclusive and binding on all subsequent holders of such Euro Note.

The consent of the holders of any series of the Euro Notes is not necessary to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

After an amendment described in the preceding paragraph becomes effective, the Issuer or the Guarantor will deliver to the holders of such Euro Notes and the Trustee a notice briefly describing such amendment. However, the failure to give such notice to all holders of such Euro Notes, or any defect therein, will not impair or affect the validity of the amendment.

### **Prescription**

Any moneys deposited with or paid to the Trustee or any paying agent of the Euro Notes, or then held by the Issuer, in trust, for the payment of the principal of or interest on (or any Additional Amount payable in respect of) any Euro Note and not applied but remaining unclaimed for two years after the date upon which such principal or interest shall have become due and payable, shall, upon the written request of the Guarantor or the Issuer be repaid to the Guarantor or the Issuer, as the case may be, by the Trustee or such paying agent or (if then held by the Issuer) be discharged from such trust, unless otherwise required by mandatory provisions of applicable

escheat or abandoned or unclaimed property law, and the holder of such Euro Note shall, unless otherwise required by mandatory provisions of applicable escheat or abandoned or unclaimed property laws, thereafter look only to the Guarantor or the Issuer for any payment which such holder may be entitled to collect, and all liability of the Trustee or any paying agent of the Euro Notes with respect to such moneys shall thereupon cease.

Under New York law, any legal action upon the Euro Notes or Guarantees must be commenced within six years after the payment thereof is due. Thereafter, the Euro Notes or Guarantees will generally become unenforceable.

### **Concerning the Trustee**

Citicorp International Limited will be the Trustee under the Indentures. The corporate trust office of Citicorp International Limited is currently located at 39/F Citibank Tower, 3 Garden Road, Central, Hong Kong. The Issuer will appoint Citibank, N.A., London Branch as Paying Agent, Transfer Agent and Registrar, located at c/o Citibank, N.A., Dublin Branch, 1 North Wall Quay, Dublin 1, Ireland.

The Indentures provide that the Trustee, except during the continuance of an Event of Default, undertakes to perform such duties and only such duties as are specifically set forth in the Indentures. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it by the Indentures as a prudent person would exercise under the circumstances in the conduct of such person's own affairs. The Indentures also provide that the Trustee and any paying or other agent of the Euro Notes, in their individual or any other capacity, may become the owner or pledgee of Euro Notes with the same rights it would have if it were not the trustee or such agent and may otherwise deal with the Guarantor and the Issuer and receive, collect, hold and retain collections from the Guarantor and the Issuer with the same rights it would have if it were not the trustee or such agent. All moneys received by the Trustee shall, until used or applied as provided in the Indentures, be held in trust thereunder for the purposes for which they were received and need not be segregated from other funds except to the extent required by law.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indentures for the benefit of the holders unless such holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. In the exercise of its duties, the Trustee shall not be responsible for the calculation or computation of any amount payable under the Euro Notes and the Guarantees or the verification of any such calculations or computations or any verification of the accuracy or completeness of any certification, opinion or other documents submitted to it by the Issuer or the Guarantor.

### **Indemnification for Judgment Currency Fluctuations**

To the fullest extent permitted by law, the obligations of the Guarantor or the Issuer to any holder of Euro Notes under the Indentures, the Guarantees or the Euro Notes, as the case may be, shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than euro (the "Agreement Currency"), be discharged only to the extent that on the day following receipt by such holder or the Trustee, as the case may be, of any amount in the Judgment Currency, such holder or the Trustee, as the case may be, may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the amount originally to be paid to such holder or the Trustee, as the case may be, in the Agreement Currency, the Guarantor and the Issuer agree, as a separate obligation

and notwithstanding such judgment, to pay the difference and if the amount of the Agreement Currency so purchased exceeds the amount originally to be paid to such holder, such holder or the Trustee, as the case may be, agrees to pay to or for the account of the Guarantor or the Issuer, as the case may be, such excess; *provided that* such holder or the Trustee, as the case may be, shall not have any obligation to pay any such excess as long as a default by the Guarantor or the Issuer in its obligations under the Indentures or the Euro Notes has occurred and is continuing, in which case such excess may be applied by such holder or the Trustee, as the case may be, to such obligations.

### **Governing Law and Consent to Jurisdiction**

The Euro Notes, the Guarantees and the Indentures are governed by and will be construed in accordance with the laws of the State of New York.

The Guarantor and the Issuer will each irrevocably submit to the non-exclusive jurisdiction of any New York state or United States federal court located in the Borough of Manhattan, The City of New York, New York (each a “New York Court”) in any suit, action or proceeding arising out of or relating to the Indentures, the Euro Notes, the Guarantees or any transaction contemplated thereby, and will irrevocably waive, to the fullest extent permitted by applicable law, any objection to the venue of any such suit, action or proceeding in any such New York Court and any claim of an inconvenient forum.

The Guarantor and the Issuer have appointed China Petroleum & Chemical Corporation USA Representative Office, Suite 610, 410 Park Avenue, New York, NY, 10022, USA, as agent for service of process with respect of any such suit, action or proceeding.

### **Waiver of Immunity**

To the extent that the Guarantor or the Issuer has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (including any immunity from non-exclusive jurisdiction or from service of process or from any execution to satisfy a final judgment or from attachment or in aid of such execution or otherwise) with respect to itself or any of its assets or properties, the Guarantor and the Issuer each irrevocably waives, to the fullest extent permitted under applicable law, any such right of immunity or claim thereto which may now or hereafter exist, and agrees not to assert any such right or claim in any action or proceeding against it arising out of or based on the Euro Notes, the Guarantees or the Indentures.

### **Notices**

Notices to holders of the Euro Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and will be deemed to have been given on the fourth Business Day after the date of mailing. So long as and to the extent that the Euro Notes are represented by global notes and such global notes are held by Euroclear or Clearstream, Luxembourg, notices to owners of beneficial interests in the global notes may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg, as the case may be, for communication by it to entitled account holders.

## **Notes; Delivery and Form**

The statements set forth herein include summaries of certain rules and operating procedures of Euroclear and Clearstream, Luxembourg which will affect transfers of interests in the global notes.

The Euro Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will be initially in the form of one or more Regulation S global notes, fully registered without interest coupons, which will be registered in the name of a nominee of a bank depositary common to both Euroclear and Clearstream, Luxembourg.

The Euro Notes sold to qualified institutional buyers (“QIBs”) in reliance on Rule 144A under the Securities Act will be issued initially in the form of one or more Rule 144A global notes, fully registered without interest coupons, which will be registered in the name of a nominee of a bank depositary common to both Euroclear and Clearstream, Luxembourg.

The Euro Notes will be issued in minimum denominations of €100,000 and in integral multiples of €1,000 in excess of that amount.

The Euro Notes (including beneficial interests in the global notes) will be subject to certain restrictions on transfer set forth therein and in the Indentures and will bear a legend regarding such restrictions as set forth under “Transfer Restrictions.” Under certain circumstances, transfers may be made only upon receipt by the Trustee of a written certification (in the form(s) provided in the Indenture).

Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A global note without any written certification from the transferor or the transferee. Beneficial interests in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in a Regulation S global note only upon receipt by the Trustee of written certifications (in the form(s) provided in the Indentures) from the transferor to the effect that such transfer is being made to a non-U.S. person as defined in Rule 904 of Regulation S or pursuant to Rule 144 under the Securities Act (if available).

Any beneficial interest in one of the global notes that is transferred to an entity who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Investors may hold their interests in the global notes directly through Clearstream, Luxembourg or Euroclear, as the case may be, if they are participants in such systems, or indirectly through organizations which are participants in such systems.

Transfers between participants in Clearstream, Luxembourg and Euroclear (“Clearstream Participants” and “Euroclear Participants,” respectively) will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Payment of interest on and principal of the global notes will be made to a nominee of Euroclear or Clearstream, Luxembourg, as the registered owner of the global notes by wire transfer of immediately available funds. None of the Guarantor, the Issuer nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

So long as the Euro Notes are represented by global notes and such global notes are held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, such clearing system or its nominee will be considered the sole holder of the Euro Notes represented by the applicable global notes for all purposes under the Indentures, including, without limitation, obtaining consents and waivers thereunder, and none of the Guarantor, the Issuer or the Trustee shall be affected by any notice to the contrary. None of the Guarantor, the Trustee or the Issuer shall have any responsibility or obligation with respect to the accuracy of any records maintained by any clearing system or any Participant of such clearing system. The clearing systems will take actions on behalf of their Participants in accordance with their standard procedures. To the extent that any clearing system acts upon the direction of the holders of the beneficial interests in the applicable global note and such beneficial holders give conflicting instructions, the applicable clearing system may take conflicting actions in accordance with such instructions.

Clearstream, Luxembourg or Euroclear, as the case may be, will take any action permitted to be taken by a holder of Euro Notes (including, without limitation, the presentation of Euro Notes for exchange) on behalf of a Clearstream Participant or a Euroclear Participant only in accordance with its relevant rules and procedures.

Although Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the global notes among participants of Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Guarantor, the Issuer or the Trustee will have any responsibility for the performance by Clearstream, Luxembourg and Euroclear, or their respective Participants, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream, Luxembourg hold securities for participating organizations. They also facilitate the clearance and settlement of securities transactions between their respective Participants through electronic book-entry changes in the accounts of such Participants. Euroclear and Clearstream, Luxembourg provide various services to their Participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream, Luxembourg interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream Participant, either directly or indirectly.

### **Individual Notes**

If Euroclear or Clearstream, Luxembourg, as the case may be, is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Issuer within 90 calendar days or if there shall have occurred and be continuing an Event of Default (as described above) with respect to the Euro Notes, the Issuer will issue individual notes in certificated, fully registered form in exchange for the global notes.

Subject to the transfer restrictions set forth on the individual notes in certificated form, the holder of such individual notes in certificated form may transfer or exchange such Euro Notes by surrendering them at the corporate trust office of the Trustee. Prior to any proposed transfer of individual notes in certificated form (other than pursuant to an effective registration statement), the holder may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation to the Trustee as described under “— Notes; Delivery and Form” above. Upon the transfer, exchange or replacement of individual notes in certificated form not bearing the legend referred to under “Transfer Restrictions,” the Trustee will deliver individual notes in certificated form that do not bear the legend. Upon the transfer, exchange or replacement of individual notes in certificated form bearing the legend, or upon specific request for removal of the legend on an individual note in certificated form, the Trustee will deliver only individual notes in certificated form that bear such legend or shall refuse to remove such legend, as the case may be, unless there is delivered to the Guarantor or the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Guarantor or the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

### **Certain Definitions**

Set forth below are definitions of certain of the terms used herein. Additional terms are defined elsewhere above or in the Indenture.

“*Adjusted Consolidated Net Worth*” means the sum of the Guarantor’s (a) shareholders’ equity as determined under PRC GAAP and (b) Subordinated Indebtedness.

“*Beijing Business Day*” means a day other than a Saturday, Sunday or a day on which the Beijing Branch is authorized or obligated by law or executive order to remain closed.

“*Capital Stock*” means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

“*Indebtedness*” of any Person means, at any date, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument, excluding trade payables, (ii) all noncontingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument, and (iii) all Indebtedness of others guaranteed by such Person.

“*Issuer*” means Sinopec Group Overseas Development (2015) Limited.

“*Lien*” means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“*PRC GAAP*” means generally accepted accounting principles in the PRC consistently applied as in effect from time to time.

“Principal Subsidiary” at any time shall mean one of the Guarantor’s Subsidiaries

- (i) as to which one or more of the following conditions is/are satisfied:
  - (a) its net profit or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net profit attributable to the Guarantor (in each case before taxation and exceptional items) is at least 10% of the Guarantor’s consolidated net profit (before taxation and exceptional items); or
  - (b) its net assets or (in the case of one of the Guarantor’s Subsidiaries which has one or more Subsidiaries) consolidated net assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10% of the Guarantor’s consolidated net assets (after deducting minority interests in Subsidiaries);

all as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Guarantor’s Subsidiary and the Guarantor’s then latest consolidated financial statements, *provided that*: (1) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest relevant audited financial statements relate, the reference to the then latest audited financial statements for the purposes of the calculation above shall, until audited financial statements for the financial period in which the acquisition is made are published, be deemed to be a reference to the financial statements adjusted to consolidate the latest audited financial statements of the Subsidiary in the financial statements; (2) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, no consolidated financial statements are prepared and audited, its consolidated net assets and consolidated net profits shall be determined on the basis of *pro forma* consolidated financial statements of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors; or (3) if the financial statements of a Subsidiary of the Guarantor (not being a Subsidiary referred to in (1) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Guarantor and its Subsidiaries; or

- (ii) to which is transferred all or substantially all of the assets of the Guarantor’s Subsidiary which immediately prior to the transfer was a Principal Subsidiary, *provided that*, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraph (i) above) and the Guarantor’s Subsidiary to which the assets are so transferred shall become a Principal Subsidiary.

A certificate of the Guarantor’s auditors as to whether or not the Guarantor’s Subsidiary is a Principal Subsidiary shall be conclusive and binding on all parties in the absence of manifest error.

“Relevant Indebtedness” of any Person means, at any date, Indebtedness that (x) has a final maturity date of one year or more from the date of incurrence or issuance of such Indebtedness and (y) is in the form of, is represented or embodied by, bonds, notes, debentures or other securities which are, or are intended to be, commonly quoted, listed or dealt in or traded on any stock exchange or over-the-counter securities market.

“*Subordinated Indebtedness*” means the Guarantor’s indebtedness (including perpetual debt, which the Guarantor is not required to repay) which (i) has a final maturity and a weighted average life to maturity longer than the remaining life to maturity of the Euro Notes and (ii) is issued or assumed pursuant to, or evidenced by, an indenture or other instrument containing provisions for the subordination of such Indebtedness to the Euro Notes including (a) a provision that in the event of the Guarantor’s bankruptcy, insolvency or other similar proceeding, the holders of the Euro Notes shall be entitled to receive payment in full in cash of all principal, Additional Amounts and interest on the Euro Notes (including all interest arising after the commencement of such proceeding whether or not an allowed claim in such proceeding) before the holder or holders of any such Subordinated Indebtedness shall be entitled to receive any payment of principal, interest or premium thereon, (b) a provision that, if an Event of Default has occurred and is continuing under the Indentures, the holder or holders of any such Subordinated Indebtedness shall not be entitled to payment of any principal, interest or premium in respect thereof unless or until such Event of Default shall have been cured or waived or shall have ceased to exist, and (c) a provision that the holder or holders of such Subordinated Indebtedness may not accelerate the maturity thereof as a result of any default relating thereto so long as any Euro Note is outstanding.

“*Subsidiary*” means, as applied to any Person, any corporation or other entity of which a majority of the outstanding Voting Shares is, at the time, directly or indirectly, owned by such Person.

“*TARGET2 System*” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET 2) System or any successor thereto.

“*Voting Shares*” means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

Each purchaser of the Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S under the Securities Act are used herein as defined therein):

1. it is not an “affiliate” (as defined in Rule 144 under the Securities Act) of the Company or the Issuer or acting on behalf of the Company or the Issuer and (A)(i) is a Qualified Institutional Buyer, (ii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or the account of a Qualified Institutional Buyer, or (B)(i) is outside the United States and (ii) is not a U.S. person;
2. it acknowledges that the Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States except as set forth below;
3. (A) it understands and agrees that if it decides to resell, pledge or otherwise transfer any Notes or any beneficial interests in any Notes other than a Regulation S global note within the time period referred to in Rule 144(d) under the Securities Act with respect to such resale, pledge or transfer, such Notes may be resold, pledged, or transferred only, (a) if such purchaser is an initial investor, (i) to the Company or the Issuer or any subsidiary thereof, (ii) to a person whom the seller reasonably believes is a Qualified Institutional Buyer that purchases for its own account or for the account of a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction meeting the requirements of Rule 904 of Regulation S under the Securities Act or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act (if available); (b) if such purchaser is a subsequent investor, as set forth in (a) above and, in addition, pursuant to any available exemption from the registration requirements under the Securities Act (provided that as a condition to the registration of transfer of any Notes otherwise than as described in a(i), (a)(ii) or (a)(iii) above or (c) below, the Company, the Issuer, the Trustee, the Paying Agent or the Registrar may, in circumstances that any of them deems appropriate, require evidence as to compliance with any such exemption); or (c) pursuant to an effective registration statement under the Securities Act, and in each of such cases, in accordance with any applicable securities laws of any state of the United States and any other jurisdiction;
- (B) if it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, it acknowledges that until the expiration of the 40-day distribution compliance period, it shall not make any offer or sale of the Notes to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the Securities Act, except pursuant to Rule 144A to a qualified institutional buyer taking delivery thereof in the form of a beneficial interest in a Rule 144A global note;
4. it agrees to, and each subsequent holder is required to, notify any purchaser of the Notes from it of the resale restrictions referred to in clause 3 above, if then applicable;

5. it understands and agrees that (A) the Notes initially offered in the United States to Qualified Institutional Buyers will be represented by Rule 144A global notes and (B) the Notes offered outside the United States in reliance on Regulation S will be represented by Regulation S global notes;
6. it understands that the Notes will bear a legend to the following effect, unless otherwise agreed to by the Company and the Issuer:

*[IN THE CASE OF RULE 144A GLOBAL NOTES]* THIS NOTE AND THE GUARANTEE RELATING TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT, WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO THE ISSUER, THE GUARANTOR OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT, (D) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS.

*[IN THE CASE OF REGULATION S GLOBAL NOTES]* THIS NOTE AND THE GUARANTEE RELATING TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY JURISDICTION, AND MAY NOT BE TRANSFERRED IN THE UNITED STATES EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN

REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”)) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN.

7. it acknowledges that the Company, the Issuer and the Initial Purchasers, the Trustee, the Paying Agent, the Registrar and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of Notes are no longer accurate, it shall promptly notify the Company and the Issuer, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

For further discussion of the requirements (including the presentation of transfer certificates) under the Indentures to effect exchanges of transfer of interests in the global notes and of the Notes in certificated form, see “Description of the Dollar Notes and Guarantee — Notes; Delivery and Form” and “Description of the Euro Notes and Guarantees — Notes; Delivery and Form.”

## EXCHANGE RATES

This offering memorandum contains translations of certain Renminbi amounts into U.S. dollar and euro amounts at specified rates. Unless otherwise stated, the translations of Renminbi into U.S. dollars have been made at the Noon Buying Rate, as of December 31, 2014, which was RMB 6.2046 to US\$1.00, and the translations of euro amounts into U.S. dollar amounts has been made at the rate of US\$1.2101 to €1.00, the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve Board on December 31, 2014. We make no representation that the Renminbi or U.S. dollar amounts referred to in this offering memorandum could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. See “Risk Factors — Risks Related to Doing Business in the PRC — Government control of currency conversion and exchange rate fluctuation may adversely affect our operations and financial results.” For discussions of the effects of fluctuating exchange rates and currency control on the value of your investment in the Notes.

### U.S. DOLLAR

The following table sets forth the Noon Buying Rate as set forth in the H. 10 statistical release of the Federal Reserve Board for and as of the period ends indicated from and after January 1, 2010:

Period	Period end	Average <sup>(1)</sup>	High	Low
		(RMB per US\$1.00)		
2010 .....	6.6000	6.7603	6.6000	6.8330
2011 .....	6.2939	6.4475	6.2939	6.6364
2012 .....	6.2301	6.2990	6.2221	6.3879
2013 .....	6.0537	6.1412	6.0537	6.2438
2014 .....	6.2046	6.1704	6.0402	6.2951
2014				
October .....	6.1124	6.1251	6.1107	6.1385
November .....	6.1429	6.1249	6.1178	6.1429
December .....	6.2046	6.1886	6.1490	6.2256
2015				
January .....	6.2495	6.2181	6.1870	6.2535
February .....	6.2695	6.2518	6.2399	6.2695
March .....	6.1990	6.2386	6.1955	6.2741
April (through April 10, 2015) .....	6.1976	6.1989	6.1930	6.2082

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

## EURO

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in euros as certified for customs purposes by the Federal Reserve Bank of New York for the period indicated:

Period	Period end	Average <sup>(1)</sup>	High	Low
		(US\$ per €1.00)		
2010 .....	1.3269	1.3216	1.4536	1.1959
2011 .....	1.2973	1.4002	1.48759	1.2926
2012 .....	1.3186	1.2909	1.3463	1.2062
2013 .....	1.3779	1.3281	1.3816	1.2774
2014 .....	1.2101	1.3297	1.3927	1.2101
2014				
October .....	1.2530	1.2677	1.2812	1.2517
November .....	1.2438	1.2473	1.2554	1.2394
December .....	1.2101	1.2329	1.2504	1.2101
2015				
January .....	1.1290	1.1615	1.2015	1.1279
February .....	1.1197	1.1350	1.1462	1.1197
March .....	1.0741	1.0819	1.1212	1.0524
April (through April 10, 2015) .....	1.0598	1.0822	1.1008	1.0598

---

(1) Determined by averaging rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including any possible consequences under the laws of their country of citizenship, residence or domicile.*

### **British Virgin Islands**

A British Virgin Islands business company is exempt from all provisions of the Income Tax Act of the British Virgin Islands including with respect to all dividends, interests, rents, royalties, compensations and other amounts payable by the company to persons who are not resident in the British Virgin Islands.

Income and capital gains realized with respect to notes issued by a company, such as the Notes, by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands. Accordingly, there is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payments to be made to or by a company pursuant to the Notes to persons who are not resident in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Notes.

### **PRC**

#### ***Taxation on Interest***

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under the laws of foreign countries and regions whose “de facto management bodies” are within the territory of the PRC are treated as PRC tax resident enterprises for the purpose of the EIT Law and must pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the “de facto management body” of the Issuer is within the territory of the PRC, the Issuer may be treated as a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% on its income from sources both within and outside the PRC.

The EIT Law and its implementation regulations impose withholding tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on PRC-source income paid to a “non-resident enterprise” that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant income is not effectively connected therewith. Pursuant to these provisions of the EIT Law, in the event the Issuer is considered to be a PRC resident enterprise by the PRC tax authorities in the future, interest payable to non-resident enterprise holders of the Notes may be treated as income derived from sources within China and be subject to such PRC withholding tax. Further, in accordance with the Individual Income Tax

Law of the PRC which took effect on September 1, 2011 and its implementation regulations which took effect on September 1, 2011, if the Issuer is considered to be a PRC tax resident enterprise, interest payable to non-resident individual holders of the Notes may be treated as income derived from sources within China and be subject to a 20% individual income tax which the Issuer would be obliged to withhold from payments of interests to non-resident individual holders of the Notes. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes.

As confirmed by the Issuer, as of the date of this offering memorandum, the Issuer has not been given notice or informed by the PRC tax authorities that it is considered a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, non-resident enterprise holders of the Notes will not be subject to income tax imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon. However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future.

In addition, as the Guarantor is a PRC resident enterprise, in the event that the Guarantor is required to fulfill its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Guarantor will be obliged to withhold PRC enterprise income tax at a rate of 10% on such payments to non-PRC resident enterprise holders of the Notes and 20% for non-resident individual holders of the Notes if such interest payments are deemed to be derived from sources within the PRC. To the extent that the PRC has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, which allows a lower rate of withholding tax, such lower rate may apply to qualified holders of the Notes. Repayment of the principal will not be subject to PRC withholding tax.

### ***Taxation on Capital Gains***

The EIT Law and its implementation regulations impose a tax at the rate of 10%, or a lower rate if tax treaty benefits are available, on income derived from sources within the PRC realized by a “non-resident enterprise” that does not have an establishment or place of business in China or that has an establishment or place of business in China but the relevant gain is not effectively connected therewith. The Individual Income Tax Law and its implementation regulations impose a tax at the rate of 20% on income derived from sources within the PRC realized by non-resident individuals. If the Issuer is considered a PRC resident enterprise by the PRC tax authorities in the future, and if the capital gains realized by holders of the Notes are treated as income derived from sources within China, such gains will be subject to such PRC tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of tax, such lower rate may apply to qualified non-resident holders of the Notes, if both the Issuer and the investors qualify for benefits under the applicable tax treaty.

### ***Stamp Duty***

No PRC stamp tax will be chargeable upon the issue or transfer of a Note to the extent that the register of holders of the Notes is maintained outside mainland China. The Issuer intends to maintain the register of holders of the Notes outside mainland China.

## **Hong Kong**

Under current Hong Kong legislation, no Hong Kong taxes are required to be withheld from or chargeable on payments of principal, premium or interest in respect of the Notes. No Hong Kong stamp duty is payable on the sale and purchase or other disposal of bonds or notes denominated in a currency other than the Hong Kong dollar provided that the bonds or notes are not redeemable, and may not at the option of any person be redeemed, in Hong Kong dollars. Therefore, a sale or purchase or other disposal of the Notes will not be subject to Hong Kong stamp duty. Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets). Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a company, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business; or
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance of Hong Kong (Chapter 112, Laws of Hong Kong)) and arises through or from the carrying on by the financial institution of its business in Hong Kong.

Any capital gains from the sale of the Notes will not be subject to taxes in Hong Kong, except that Hong Kong profits tax may be chargeable in the case of owners of Notes who carry on a trade, profession or business in Hong Kong and such gains form part of the revenue or profits of such trade, profession or business.

## ***United States Federal Income Tax Considerations***

The following is a summary of United States federal income tax considerations generally applicable to the purchase, ownership and disposition of Notes by a “U.S. holder” (as defined below) who acquired our Notes upon original issuance at their initial offering price and who holds the Notes as “capital assets” (generally, property held for investment) for United States federal income tax purposes, but it does not purport to be a complete analysis of all potential tax consequences and considerations. This summary is based upon existing United States federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This summary does not discuss all aspects of United States federal income taxation which may be important to particular investors in light of their individual investment circumstances, such as investors subject to special tax rules (e.g., banks or other financial institutions, insurance companies, broker-dealers, partnerships and their partners, tax-exempt organizations (including private foundations), investors who are not U.S. holders, traders in securities that have elected the mark-to-market method of accounting, investors subject to the alternative minimum tax, real estate investment trusts, regulated investment companies, pension plans, cooperatives, investors who hold Notes as part of a straddle or other integrated security transaction, or investors whose functional currency is not the United States dollar), all of whom may be subject to tax rules that differ significantly from those summarized below. In addition, this summary does not address any state,

local, non-United States, or non-income tax (such as United States federal gift and estate tax) considerations or the Medicare contribution tax. You are urged to consult your tax advisors regarding the United States federal, state, local, and non-United States income and other tax considerations of an investment in our Notes.

For purposes of this summary, a “U.S. holder” is a beneficial owner of our Notes that is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation created in, or organized under the laws of, the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has an election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership is a beneficial owner of our Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partnership or a partner of a partnership holding our Notes, you are urged to consult your tax advisors regarding the United States federal income tax considerations of an investment in our Notes.

### ***Payments of Interest***

Interest on the Notes will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for United States federal income tax purposes. In addition to interest on the Notes, you will be required to include in income any PRC or other foreign taxes withheld from the interest payments you receive and, without duplication, any Additional Amounts paid in respect of such foreign taxes withheld.

If you use the cash method of tax accounting you will be required to include as ordinary income the U.S. dollar value of the euro-denominated interest (including any Additional Amounts) paid in respect of the Euro Notes based on the spot rate of exchange on the date of receipt. No foreign currency exchange gain or loss will be recognized in respect of the receipt of euro-denominated interest (including any Additional Amounts) if such amounts are converted into U.S. dollars on the date of receipt.

If you use the accrual method of tax accounting you will accrue interest income on the Euro Notes in euros and translate the amount accrued into U.S. dollars based on:

- the average exchange rate in effect during the interest accrual period, or portion thereof, within your taxable year; or
- at your election, the spot rate of exchange on (1) the last day of the accrual period, or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year, or (2) the date of receipt, if such date is within five business days of the last day of the accrual period.

You must apply the election described in the second bullet point above consistently to all debt instruments from year to year and can change it only with the consent of the Internal Revenue Service (the “IRS”). If you use the accrual method of tax accounting you will recognize foreign currency exchange gain or loss on the receipt of an interest payment on the Euro Notes equal to the difference between the U.S. dollar value of the payment (based on the spot rate of exchange on the date the payment is received) and the amount of interest accrued for the relevant accrual period as described above. Such foreign currency exchange gain or loss will be treated as ordinary income or loss, but will not be treated as an adjustment to interest income received on the Euro Notes.

### ***Sale, Exchange or Other Disposition of the Notes***

Upon the sale, exchange or other taxable disposition of a Note, you will recognize gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition (less an amount equal to any accrued but unpaid interest, which will be taxable as ordinary interest income, as described in “—Payments of Interest” above, to the extent not previously included in income) and your tax basis in the Note. Your tax basis in a Note will generally be the cost of such Note or, in the case of a Euro Note, the U.S. dollar value of the euro purchase price on the date of purchase, calculated at the spot rate of exchange on that date. If a Note is sold, exchanged, or otherwise disposed of in a taxable disposition for an amount denominated in foreign currency, the amount realized will generally be the U.S. dollar value of the foreign currency received based on the spot rate on the date of sale, exchange, or disposition. However, if the Euro Notes are traded on an established securities market and you use the cash method of tax accounting (or are an accrual method taxpayer who so elects), the amount realized will be the U.S. dollar value of the foreign currency received based on the spot rate of exchange in effect on the settlement date. The special election available to you if you are an accrual basis taxpayer in regard to the sale, exchange or other disposition of Euro Notes traded on an established securities market must be applied consistently to all debt instruments you hold and cannot be changed without the consent of the IRS. If the Euro Notes are not traded on an established securities market (or, if the Euro Notes are so traded, but you use the accrual method of tax accounting and do not make the settlement date election), you will recognize gain or loss to the extent that there are exchange rate fluctuations between the sale date and the settlement date. Except as noted below with respect to foreign currency exchange gain or loss, gain or loss on the sale, exchange or other taxable disposition will be capital gain or loss and will be long-term capital gain or loss if the Note were held for more than one year. Certain non-corporate U.S. holders (including individuals) may qualify for preferential rates of United States federal income taxation in respect of long-term capital gains. The deductibility of capital losses is subject to certain limitations.

Gain or loss recognized by you on a sale, exchange or other taxable disposition of a Euro Note will generally be ordinary income or loss from U.S. source to the extent that the gain or loss attributable to changes in foreign currency exchange rates during the period in which you owned such Euro Note. Such gain or loss will generally equal the difference between (1) the U.S. dollar value of the purchase price of the Euro Note in euros determined using the spot exchange rate on the date such payment is received or the Euro Note is disposed of, as applicable (or on the settlement date if the Euro Notes are traded on an established securities market and you are a cash basis or an electing accrual method taxpayer as described above) and (2) the U.S. dollar value of the euros received in such taxable disposition calculated at the spot rate of exchange on the date of purchase. Such gain or loss will be recognized only to the extent of the total gain or loss you realize on the sale, exchange or other taxable disposition of the Euro Note.

## Foreign Tax Credit

If any PRC taxes are withheld in respect of any payments on the Notes (as discussed in “Taxation—PRC”), you may be entitled to claim either a deduction or a foreign tax credit for United States federal income tax purposes, subject to certain limitations (including that the election to deduct non-U.S. taxes in lieu of claiming foreign tax credits must apply to all of your non-U.S. taxes for a particular tax year). Interest income (including any Additional Amounts) on a Note generally will be considered foreign source income and, for purposes of the foreign tax credit, generally will be considered “passive income” or, in certain cases, “general category income.”

Because gain or loss on a sale or disposition of a Note generally will be U.S. source gain or loss, you may not be able to claim a credit for any foreign taxes imposed upon a disposition of a Note unless such credit can be applied (subject to certain limitations) against tax due on other income treated as derived from foreign source. If, however, any PRC tax is imposed upon a disposition of a Note (as discussed in “Taxation—PRC”) and you are eligible for the benefits of the U.S.-China income tax treaty, any gain or loss (or a portion thereof) from such disposition might be treated as non-U.S. source gain or loss for foreign tax credit purposes. You are urged to consult your tax advisors regarding the tax consequences if PRC tax is imposed on the disposition of a Note, including the application of the foreign tax credit rules to your particular circumstances.

You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the Notes if you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisers regarding the availability of the foreign tax credit under your particular circumstances.

## Foreign Asset Reporting

Certain U.S. holders are required to report information relating to an interest in a Note, subject to certain exceptions (including an exception for Notes held in accounts maintained by certain financial institutions). You should consult your tax advisor regarding the effect, if any, of these rules on your ownership and disposition of the Notes.

**The preceding discussion of certain U.S. federal income tax considerations is general information only and is not tax advice. Accordingly, each U.S. holder should consult its own tax advisor as to the particular tax and reporting considerations pertinent to it of holding or disposing of the Notes, including the applicability and effect of any U.S. federal, state, local or non-U.S. tax laws, and of any changes or proposed changes in applicable law.**

## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement relating to the Dollar Notes among the Issuer, the Company, and Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, and Deutsche Bank AG, Singapore Branch, as representatives for the Initial Purchasers named below, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Notes set forth opposite its name below.

### Dollar Notes

Initial Purchaser	Principal Amount of 2020 Notes	Principal Amount of 2025 Notes	Principal Amount of 2045 Notes
Citigroup Global Markets Inc. . . . .	US\$446,759,258	US\$268,055,556	US\$142,962,962
The Hongkong and Shanghai Banking Corporation Limited . . . . .	US\$434,027,777	US\$260,416,666	US\$138,888,889
Goldman Sachs (Asia) L.L.C. . . . .	US\$434,027,777	US\$260,416,666	US\$138,888,889
Bank of China Limited, together with BOCI Asia Limited . . . . .	US\$405,092,594	US\$243,055,556	US\$129,629,630
Deutsche Bank AG, Singapore Branch .	US\$405,092,594	US\$243,055,556	US\$129,629,630
CCB International Capital Limited . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
DBS Bank Ltd. . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
ICBC International Securities Limited .	US\$37,500,000	US\$22,500,000	US\$12,000,000
ING Bank N.V — Singapore Branch . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
J.P. Morgan Securities plc . . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
Merrill Lynch International . . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
Mizuho Securities USA Inc. . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
Morgan Stanley & Co. International plc	US\$37,500,000	US\$22,500,000	US\$12,000,000
Société Générale . . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
Standard Chartered Bank . . . . .	US\$37,500,000	US\$22,500,000	US\$12,000,000
<b>Total</b> . . . . .	<u>US\$2,500,000,000</u>	<u>US\$1,500,000,000</u>	<u>US\$800,000,000</u>

Subject to the terms and conditions set forth in a purchase agreement relating to the Euro Notes among the Issuer, the Company and Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited and Deutsche Bank AG, London Branch as representatives for the Initial Purchasers named below, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of the Notes set forth opposite its name below.

## Euro Notes

Initial Purchaser	Principal Amount of 2018 Euro Notes	Principal Amount of 2022 Euro Notes
Citigroup Global Markets Inc. . . . .	€147,962,962	€113,148,148
The Hongkong and Shanghai Banking Corporation Limited . . . . .	€147,962,962	€113,148,148
Goldman Sachs (Asia) L.L.C. . . . .	€147,962,962	€113,148,148
Bank of China Limited, together with BOCI Asia Limited . . . . .	€139,305,557	€106,527,778
Deutsche Bank AG, London Branch . . . . .	€139,305,557	€106,527,778
CCB International Capital Limited . . . . .	€12,750,000	€9,750,000
DBS Bank Ltd. . . . .	€12,750,000	€9,750,000
ICBC International Securities Limited . . . . .	€12,750,000	€9,750,000
ING Bank N.V — Singapore Branch . . . . .	€12,750,000	€9,750,000
J.P. Morgan Securities plc . . . . .	€12,750,000	€9,750,000
Merrill Lynch International . . . . .	€12,750,000	€9,750,000
Mizuho International plc . . . . .	€12,750,000	€9,750,000
Morgan Stanley & Co. International plc . . . . .	€12,750,000	€9,750,000
Société Générale . . . . .	€12,750,000	€9,750,000
Standard Chartered Bank . . . . .	€12,750,000	€9,750,000
<b>Total</b> . . . . .	<b>€850,000,000</b>	<b>€650,000,000</b>

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement. The purchase agreement also provides that the obligations of the Initial Purchasers to purchase the Notes are subject to, among other things, the receipt by the Initial Purchasers of documentation related to the issuance and sale of the Notes, officers' certificates and legal opinions and to other conditions.

The Issuer has agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The closings of the Dollar Notes and Euro Notes offerings contemplated hereby are not contingent upon each other. Accordingly, it is possible that one of the offerings will proceed to completion while the other offering will not do so.

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed.

## **Notes Are Not Being Registered**

The Notes have not been registered under the Securities Act or any state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales in reliance on the exemption provided by Rule 144A and Regulation S under the Securities Act. The Initial Purchasers will not offer or sell the Notes within the United States except to persons they reasonably believe to be Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act). Each of the Initial Purchasers has acknowledged and agreed that, except as permitted by the preceding sentence, it will not offer or sell Notes as part of its distribution at any time within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

## **New Issue of Notes**

The Notes are a new issue of securities with no established trading market. An application has been made to the SEHK for the listing of, and permission to deal in, the Notes by way of selectively marketed securities (as defined in the Listing Rules), and application has been made for the Euro Notes to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the Global Exchange Market. We cannot assure you that the Notes will be or remain listed. The Issuer has been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. The Issuer cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price that you receive when you sell your Notes will be favorable. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the Company’s operating performance and financial condition, general economic conditions and other factors.

## **Settlement**

The Issuer expects that delivery of the Dollar Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Dollar Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Dollar Notes initially will settle on or about T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Dollar Notes who wish to trade the Dollar Notes prior to their date of delivery hereunder should consult their advisors.

The Issuer expects that delivery of the Euro Notes will be made to investors on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Euro Notes on the date of pricing or the next two succeeding business days will be required, by virtue of the fact that the Euro Notes initially will settle on or about T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Euro Notes who wish to trade the Euro Notes prior to their date of delivery hereunder should consult their advisors.

### **No Sales of Similar Securities**

Each of the Issuer and the Company has agreed that it will not, for a period of 60 days after the date of this offering memorandum, without first obtaining the prior written consent of the Initial Purchasers, offer, sell, contract to sell, pledge or otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Issuer, the Company or any affiliate of the Issuer or the Company or any person in privity with the Issuer, the Company or any affiliate of the Issuer or the Company, directly or indirectly, or announce the offering, of any debt securities issued or guaranteed by the Issuer or the Company having a tenor of more than one year (other than (i) the offerings of the Notes contemplated hereby, (ii) any loans, including bilateral or syndicated loans or club deals and (iii) any securities denominated in Renminbi that are sold exclusively within the PRC after the closing date). The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

### **Short Positions and Stabilizing Transactions**

In connection with the offering, Citigroup Global Markets Inc., The Hongkong and Shanghai Banking Corporation Limited, Goldman Sachs (Asia) L.L.C., Bank of China Limited, BOCI Asia Limited, Deutsche Bank AG, Singapore Branch and Deutsche Bank AG, London Branch, as the Stabilizing Managers, may purchase and sell the Notes in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing purchases. Short sales involve the sale by the Stabilizing Managers of a greater principal amount of the Notes than they are required to purchase in the offering. The Stabilizing Managers must close out any short position by purchasing the Notes in the open market. A short position is more likely to be created if the Initial Purchasers are concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions involve bids to purchase the Notes so long as the stabilizing bids do not exceed a specified maximum.

Similar to other purchase transactions, the Stabilizing Managers' purchases to cover the syndicate short sales and stabilizing purchasers may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

None of the Issuer, the Company or any of the Initial Purchasers makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, none of the Issuer, the Company or any of the Initial Purchasers makes any representation that the Initial Purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice at any time. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

#### **Notice to Prospective Investors in the United States**

The Notes and the Guarantees have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes and the Guarantees are being offered and sold outside of the United States in reliance on Regulation S. The Purchase Agreement provides that the Initial Purchasers may arrange for the offer and resale of Notes and the Guarantees within the United States only to Qualified Institutional Buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of the Notes and the Guarantees, an offer or sale of Notes and the Guarantees within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

#### **Notice to Prospective Investors in Italy**

The offer of the Notes has not been registered with the Italian Securities and Exchange Commission (Commissione Nazionale per le Società e la Borsa, the “CONSOB”) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or distributed, to the public nor may copies of this document or of any other document relating to the Notes be distributed in the Republic of Italy (“Italy”), except: to qualified investors (investitori qualificati) in Article 2, paragraph (e) of the Prospectus Directive as implemented by Article 34-ter of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time, (the “Issuers Regulation”); or

- (a) to qualified investors (investitori qualificati) in Article 2, paragraph (e) of the Prospectus Directive as implemented by Article 34-ter of CONSOB Regulation No. 11971 of May 14, 1999, as amended from time to time, (the “Issuers Regulation”); or
- (b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under Article 100 of the Italian Legislative Decree No. 58 of February 24, 1998, as amended from time to time, (the “Financial Services Act”) and Article 34-ter of the Issuers Regulation.

Moreover, and subject to the foregoing, any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in Italy under (i) or (ii) above must be and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be:

made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of October 29, 2007, as amended from time to time, and Legislative Decree No. 385 of September 1, 1993, as amended from time to time (the “Banking Act”);

- (a) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in Italy; and
- (b) in compliance with any other applicable laws and regulations or requirement imposed by the Bank of Italy, CONSOB or other Italian authority.

Any investor purchasing the Notes in the offering is solely responsible for ensuring that any offer or resale of the Notes it purchased in the offering occurs in compliance with applicable Italian laws and regulations.

#### **Notice to Prospective Investors in the United Kingdom**

This offering memorandum is only being distributed in the United Kingdom to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a “relevant person”). This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

#### **Notice to Prospective Investors in the European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, an offer of Notes which are the subject of the offering contemplated by this offering memorandum may not be made to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchasers for any such offer;  
or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression (i) an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, (ii) “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and (iii) “2010 PD Amending Directive” means Directive 2010/73/EU.

#### **Notice to Prospective Investors in Hong Kong**

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are, or are intended to be, disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

#### **Notice to Prospective Investors in Japan**

The Notes offered in this offering memorandum have not been registered under the Securities and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

#### **Notice to Prospective Investors in the PRC**

This offering memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC. Except to the extent consistent with applicable laws and regulations in the PRC, the Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and

regulatory requirements in the PRC, with the exception to the extent consistent with applicable laws and regulations in the PRC, the Notes may, subject to the laws and regulations of the relevant jurisdictions, only be offered or sold to non-PRC natural or legal persons in any country other than the PRC.

### **Notice to Prospective Investors in Singapore**

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

## Notice to Prospective Investors in Australia

This offering memorandum is not, and is not intended to be, a disclosure document within the meaning of Section 9 of the Corporations Act 2001 (Cth) (the “Australian Corporations Act”) or a product disclosure statement for the purposes of Chapter 7 of the Australian Corporations Act. No action has been taken by us that would permit a public offering of the Notes in Australia. In particular, no prospectus or other disclosure document in relation to the Notes has been, or will be, lodged with the Australian Securities and Investments Commission (“ASIC”) or the Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691) (“ASX”).

Each Initial Purchaser has represented and agreed, or will be required to represent and agree, that it:

- (a) has not offered or invited applications, and will not offer or invite applications, for the issue, sale or purchase of any Notes in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, this offering memorandum or any other offering material or advertisement relating to any Notes in Australia,

unless in either case (a) or (b),

- (i) the aggregate consideration payable on acceptance of the offer or invitation by each offeree or invitee is at least A\$500,000 (or the equivalent in another currency, in either case disregarding moneys lent by the person offering the Notes or making the invitation or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or 7.9 of the Australian Corporations Act and is not made to a person who is a “retail client” within the meaning of section 761G of the Australian Corporations Act;
  - (ii) the offer, invitation or distribution complied with the conditions of the Australian financial services license of the person making the offer, invitation or distribution or an applicable exemption from the requirement to hold such license;
  - (iii) the offer, invitation or distribution complies with all applicable laws, regulations and directives relating to the offer, sale and resale of the Notes in the jurisdiction in which such offer, sale and resale occurs; and
  - (iv) such action does not require any document to be lodged with ASIC or the ASX;
- (c) will not offer any of the Notes purchased in this offering for resale in Australia within 12 months of those Notes being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 or 708A of the Australian Corporations Act.

Each Initial Purchaser, severally and not jointly, represents and warrants to and agrees with the Issuer and the Guarantor that, in connection with the primary distributions of the Notes, it will not offer or sell any of the Notes to any person if, at the time of such offer or sale, the employees or

officers of the Initial Purchaser directly involved in the offer or sale know or have reasonable grounds to suspect that those Notes (or an interest in or right in respect of them) are being (or would be) acquired (directly or indirectly) by an associate of the Issuer within the meaning of section 128F(9) of the Tax Act, except as permitted in section 128F(5) of the Tax Act.

#### **Notice to Prospective Investors in Switzerland**

Neither the offering memorandum nor any other document relating to the sale of the Notes and the Guarantee constitutes a public offering prospectus within the meaning of article 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange. The Notes and the Guarantee may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither the offering memorandum nor any other document relating to the Notes and the Guarantee may be publicly distributed or otherwise made publicly available in or from Switzerland. The offering memorandum is not intended as an offer or solicitation with respect to the purchase or sale of the Notes and the Guarantee by the public and may be distributed only on a private placement basis, without any public distribution, offering or marketing in, or from, Switzerland, provided that any such distribution does not occur as a result of, or in connection with, public solicitation or marketing with respect to the purchase or sale of the Notes and the Guarantee.

#### **Notice to Prospective Investors in Taiwan**

The Notes and the Guarantee have not been and will not be registered with the Financial Supervisory Commission of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration or approval of the Financial Supervisory Commission of Taiwan. No person or entity in Taiwan has been authorized to offer, sell, give advice regarding or otherwise intermediate the offering and sale of the Notes in Taiwan.

#### **Other Relationships**

The Initial Purchasers and their affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including commercial banking and financial advisory and investment banking services, for the Issuer, the Company and their respective affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. The Issuer, the Company and their respective affiliates may enter into hedging or other derivative transactions as part of their risk management strategy with one or more of the Initial Purchasers, which may include transactions relating to its obligations under the Notes. The Issuer's and the Company's obligations under these transactions may be secured by cash or other collateral.

In connection with the offering of the Notes, each Initial Purchaser and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Guarantor or Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchasers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Company or its affiliates. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

The Initial Purchasers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchaser or any affiliate of the Initial Purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Initial Purchaser or its affiliate on behalf of the Issuer in such jurisdiction.

## **RATINGS**

The Notes are expected to be assigned a rating of “Aa3” by Moody’s and “AA-” by S&P. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. Ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the view of each rating agency at the time the rating is issued. An explanation of the significance of a rating may be obtained from the relevant rating agency. Ratings are not recommendations to buy, sell or hold securities, and there can be no assurance that ratings will remain in effect for any given period of time or that ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency’s judgment, circumstances so warrant. Each rating should be evaluated independently of any other rating on the Notes, on any other of our securities, or on us. See “Risk Factors — Risks Relating to the Notes and the Guarantees — The ratings of the Notes may be lowered, suspended or withdrawn; changes in such credit ratings may adversely affect the value of the Notes.”

## **LEGAL MATTERS**

Certain legal matters in connection with this offering as to Hong Kong law and United States federal and New York law will be passed upon for the Issuer and the Company by Skadden, Arps, Slate, Meagher & Flom and for the Initial Purchasers as to United States federal and New York law by Davis Polk & Wardwell. Certain legal matters in connection with this offering as to PRC law will be passed upon for the Issuer and the Company by Haiwen & Partners. Certain legal matters in connection with this offering as to British Virgin Islands law will be passed upon for the Issuer by Conyers Dill & Pearman.

## **INDEPENDENT AUDITORS**

Our consolidated financial statements as of and for the years ended December 31, 2012, 2013 and 2014 included in this offering memorandum have been audited by Grant Thornton China, Certified Public Accountants, our independent auditors, as indicated in their report with respect thereto, included herein.

## DESCRIPTION OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND U.S. GAAP

### Introduction

Our consolidated financial statements included in this offering memorandum have been prepared and presented in accordance with PRC GAAP. Certain differences exist between PRC GAAP and U.S. GAAP which might be relevant to our financial information included herein.

The following is a general summary of certain differences between PRC GAAP and U.S. GAAP as applicable to us. The differences identified below are limited to those significant differences that are appropriate to our financial statements. We are responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the summary. We have not prepared a complete reconciliation of the consolidated financial information and related footnote disclosure between PRC GAAP and U.S. GAAP and have not quantified such differences. Had any such quantification or reconciliation been undertaken by us, other potentially significant accounting and disclosure differences may be required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and U.S. GAAP as a result of prescribed changes in accounting standard. Regulatory bodies that promulgate PRC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one. Finally, no attempt has been made to identify future differences between PRC GAAP and U.S. GAAP that may affect the financial information as a result of transactions or events that may occur in the future. Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and U.S. GAAP is complete.

In making an investment decision, you must rely upon your own examination of our financial information, the terms of the offering and other disclosure contained herein.

### Inventories

PRC GAAP only permits reversal when the circumstances where previously caused inventories to be written down below cost no longer exist. PRC GAAP requires the reversal to be recognized under asset impairment loss.

Under U.S. GAAP, a provision to write down inventories to market value cannot be reversed. If inventory value is written down to lower amount, the reduced amount becomes new cost for subsequent periods. Inventories may be stated above cost only in exceptional cases (e.g., precious metals).

### Intangible Assets

Under PRC GAAP, when an intangible asset arises from the development phase and the entity can demonstrate that all of the five criteria are met, the intangible shall be recognized:

- (a) it is feasible technically to finish intangible assets for use or sale;
- (b) it is intended to finish and use or sale the intangible assets;
- (c) the usefulness of methods for intangible assets to generate economic benefits shall be proved;

- (d) it is able to finish the development of the intangible assets; and
- (e) the development of expenditures of the intangible assets can be reliably measured.

Under U.S. GAAP, all research and development (“R&D”) expenditures (except those acquired in business combination) shall be charged to expenses and disclosed in notes when incurred, because FASB considers future benefits from R&D to have too much uncertainty, and costs and benefits to be lack of necessary causal relationship. However, U.S. GAAP requires costs of producing software masters (for products to be sold, leased or otherwise marketed) subsequent to establishing technological feasibility to be capitalized. The capitalization ceases when the product is available for general release to customers.

PRC GAAP requires an intangible asset to be measured initially at cost. The initial measurement includes its purchase price and any directly attributable cost of preparing the asset for its intended use (e.g., import duties, professional fees).

U.S. GAAP requires initial measurement at fair value, however it goes on to refer the general concept of asset acquisition to D2-D7 of FAS 141(R), which states that assets are initially recognized based on their cost to the acquiring entity (generally including the transaction costs of the asset acquisition).

### **Contingency**

Under PRC GAAP, a provision shall be recognized when:

- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
- (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) a reliable estimate can be made of the amount of the obligation.

Under U.S. GAAP, an estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:

- (a) information available before the financial statements are issued or are available to be issued indicates that it is probable an asset had been impaired or a liability had been incurred at the date of the financial statements; and
- (b) the amount of loss can be reasonably estimated.

When a loss from contingency is charged to income, U.S. GAAP records either an increase in liability or a decrease in asset, while PRC GAAP records a provision (a liability) although sometimes it takes the form of allowance against an asset (e.g., in the case of uncollectible receivables). However the basic principles as to whether and when a loss from contingency should be recognized are the same under these two systems.

Although these two systems use probable, what they mean by probable is different. PRC GAAP uses probable as “more likely than not to occur,” which is defined as greater than 50%. U.S. GAAP uses probable as “likely to occur.” Although a numeric standard does not exist, practice generally considers an event that has 75% or greater likelihood of occurrence to be probable.

Because of the uncertainties surrounding contingencies, these two systems require “best estimate” as the amount to be recognized. However, they differ in practices as to what is a best estimate. PRC GAAP adopts a more statistical view on this matter. Although they consider the most likely outcome the anchor, they also weight-in the influence of other outcomes to reach the best estimate. U.S. GAAP accept the most likely outcome as the best estimate.

When no amount within the range of outcome is a best estimate:

- (a) under PRC GAAP, when there is a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range (i.e., the statistically correct point) is used.
- (b) when no amount within the range of outcome is a best estimate, U.S. GAAP chooses the minimum amount in the range to be the recognized amount.

PRC GAAP requires time value of money to be included when its effect is material. Under U.S. GAAP, only when the amount and timing of payments are fixed or reliably determinable, or when the obligation is a fair value obligation, time value of money may be included.

### **Borrowing Costs**

Under PRC GAAP, borrowing costs may include exchange differences that arise from foreign currency borrowings if they are regarded as an adjustment to interest costs.

Under U.S. GAAP, the exchange differences resulting from foreign currency borrowings are not capitalized and interest earned on the temporary investment of the funds borrowed to finance the production of the asset would not be netted against the borrowing costs.

### **Statement of Cash Flows**

Under PRC GAAP, the direct method together with a supporting note reconciling operating result to cash flows arising from operations is the only permitted method.

U.S. GAAP requires an enterprise should report cash flows from operating activities using either: the direct method or the indirect method. If the direct method is used, then a reconciliation of net income and operating cash flow must be presented.

### **Government Grants**

Under PRC GAAP, government grants and subsidies are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions have been complied with. When the grantor or subsidy relates to a specifically identifiable expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in current liabilities as deferred income and are credited to the statement of income on a straight line basis over the expected useful lives of the relevant asset.

Under U.S. GAAP, there is no pronouncement that specifically covers government grants and subsidies.

## GENERAL INFORMATION

1. **Authorizations:** The Issuer has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes and the Indenture. The issue of the Notes was authorized by resolutions of the Board of Directors of the Issuer passed on April 16, 2015.

The Company has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Guarantee and the Indenture. The issue of the Guarantee was authorized by resolutions of the Executive Committee of the Company passed on April 3, 2015.

2. **Litigation:** Except as disclosed in this offering memorandum, none of the Issuer, the Company or any of the Company's subsidiaries is involved in any litigation, arbitration, or governmental proceedings which may have, or have had during the 12 months preceding the date of this offering memorandum, a material adverse effect on the financial position of the Issuer or the Company, nor is the Issuer or the Company aware that any such proceedings are pending or threatened.
3. **Reporting Accountants:** The consolidated financial statements of the Company as of and for each of the years ended December 31, 2012, 2013 and 2014 set out in this offering memorandum have been audited by Grant Thornton China, as stated in their reports appearing herein. Grant Thornton China is a member firm of Grant Thornton International Ltd. and is a group member of the Chinese Institute of Certified Public Accountants.
4. **No Material Adverse Change:** Except as disclosed in this offering memorandum, there has been no material adverse change in the prospects of the Issuer or the Company since December 31, 2014 and there has been no significant change in the financial or trading position of the Issuer or the Company since December 31, 2014.
5. **Clearing Systems and Settlement:** The Dollar Notes have been accepted for clearance through the facilities of Euroclear, Clearstream, Luxembourg and DTC. Certain trading information with respect to the Dollar Notes is set forth below:

	ISIN	CUSIP
2020 Rule 144A global note . . . . .	US82938BAB62	82938B AB6
2020 Regulation S global note . . . . .	USG8201JAB73	G8201J AB7
2025 Rule 144A global note . . . . .	US82938BAC46	82938B AC4
2025 Regulation S global note . . . . .	USG8201JAC56	G8201J AC5
2045 Rule 144A global note . . . . .	US82938BAE02	82938B AE0
2045 Regulation S global note . . . . .	USG8201JAE13	G8201J AE1

The Euro Notes have been accepted for clearance through the facilities of Euroclear and Clearstream, Luxembourg. Certain trading information with respect to the Euro Notes is set forth below:

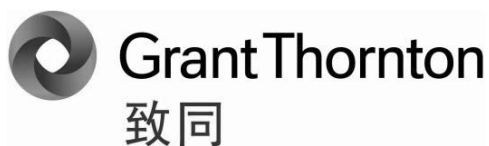
	ISIN	COMMON CODE
2018 Euro Rule 144A global note . . . . .	XS1220887233	122088723
2018 Euro Regulation S global note . . . . .	XS1220876384	122087638
2022 Euro Rule 144A global note . . . . .	XS1220876111	122087611
2022 Euro Regulation S global note . . . . .	XS1220886938	122088693

Only Notes evidenced by a global note have been accepted for clearance through Euroclear, Clearstream, Luxembourg or DTC, as the case may be.

6. **Arthur Cox Listing Services Limited:** Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Euro Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the Global Exchange Market of the Irish Stock Exchange.
7. Expenses in relation to the admission to trading: The expenses in relation to the admission of the Euro Notes to the Official List of the Irish Stock Exchange will be approximately €6,000.
8. **Where You Can Find More Information:** A copy of the Dollar Notes, the Euro Notes, the Guarantees, the financial statements of the Company and the Indentures will be available for inspection at the registered office of the Trustee, for the life of this offering memorandum.

## INDEX TO FINANCIAL STATEMENTS

	<b>Page</b>
Independent Auditors' Report for the years ended December 31, 2012, 2013 and 2014 . . . . .	F-1
Consolidated Balance Sheets as of December 31, 2012, 2013 and 2014 . . . . .	F-4
Consolidated Income Statements for the years ended December 31, 2012, 2013 and 2014 . . .	F-6
Consolidated Cash Flow Statements for the years ended December 31, 2012, 2013 and 2014.	F-7
Consolidated Statements of Changes in Owners' Equity for the years ended December 31, 2012, 2013 and 2014 . . . . .	F-9
Company Balance Sheets as of December 31, 2012, 2013 and 2014 . . . . .	F-11
Company Income Statements for the years ended December 31, 2012, 2013 and 2014 . . . . .	F-13
Company Cash Flow Statements for the years ended December 31, 2012, 2013 and 2014 . . .	F-14
Company Statements of Changes in Owners' Equity for the years ended December 31, 2012, 2013 and 2014 . . . . .	F-16
Notes to the Financial Statements for the years ended December 31, 2012, 2013 and 2014 . .	F-18



## Auditors' Report

致同会计师事务所（特殊普通合伙）  
中国北京 朝阳区建国门外大街 22 号  
赛特广场 4 / 5 / 10 / 层 邮编 100004  
电话 +86 10 8566 5588  
传真 +86 10 8566 5130  
[www.grantthornton.cn](http://www.grantthornton.cn)

Grant Thornton  
4 / 5 / 10 / F Scitech Place,  
Jianguomen Wai Avenue,  
Beijing 100004, China  
Member of Grant Thornton International Ltd  
Tel: +86 10 8566 5588  
Fax: +86 10 8566 5130  
[www.grantthornton.cn](http://www.grantthornton.cn)

GTCNSZ (2015) No.110ZA3513-T

### To the Board of China Petrochemical Corporation

We have audited the accompanying financial statements of China Petrochemical Corporation (“the Company”), which comprise the consolidated and company balance sheets as at 31 December 2012, 2013 and 2014, and the consolidated and company income statements, the consolidated and company cash flows statements, the consolidated and company statements of changes in equity for the years ended 31 December, 2012, 2013 and 2014 (the “Relevant Periods”) and notes to the financial statements.

### Management's Responsibility for the Financial Statements

The Company's Management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. These standards require that we comply with China Code of Ethics for Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial positions of the Company as at 31 December 2012, 2013 and 2014, and their financial performances and cash flows for the Relevant Periods then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

**Grant Thornton**

Beijing, China

April 16, 2015

Certified Public Accountants: /s/ Feng Zhongjun

Certified Public Accountants: /s/ Zhang Yaxu

**Consolidated Balance Sheet**

As at December 31, 2012, 2013, 2014

Items	Note	At December 31		
		2014	2013	2012
		RMB million	RMB million	RMB million
<b>Current assets</b>				
Cash	VIII.1	35,219	52,997	42,573
Bills receivable	VIII.2	16,575	31,285	22,684
Accounts receivable	VIII.3	88,667	76,679	101,925
Prepayments	VIII.4	12,142	11,615	12,617
Other receivables	VIII.5	38,372	22,279	7,371
Inventories	VIII.6	275,181	291,663	281,065
Non-current assets due within one-year	VIII.7	8,351	7,455	9,456
Other current assets	VIII.8	24,064	20,536	3,990
<b>Total current assets</b>		<b>498,571</b>	<b>514,509</b>	<b>481,681</b>
<b>Non-current assets</b>				
Available-for-sale financial assets	VIII.9	7,702	13,118	11,268
Long-term receivables	VIII.10	34,148	30,781	23,416
Long-term equity investments	VIII.11	219,503	211,051	183,855
Fixed assets	VIII.12	596,120	569,430	508,574
Oil and gas assets	VIII.13	450,631	414,511	374,691
Construction materials		1,654	2,645	3,005
Construction in progress	VIII.14	233,924	220,599	222,368
Intangible assets	VIII.15	103,989	86,055	74,737
Goodwill	VIII.16	37,205	37,348	38,298
Long-term deferred expenses	VIII.17	19,016	16,315	14,933
Deferred tax assets	VIII.18	10,289	9,571	9,151
Other non-current assets		15,614	10,990	2,100
<b>Total non-current assets</b>		<b>1,729,795</b>	<b>1,622,414</b>	<b>1,466,396</b>
<b>Total assets</b>		<b>2,228,366</b>	<b>2,136,923</b>	<b>1,948,077</b>

The accompanying notes form part of these financial statements

**Consolidated Balance Sheet (Continued)**

As at December 31, 2012, 2013, 2014

Items	Note	At December 31		
		2014 RMB million	2013 RMB million	2012 RMB million
<b>Current liabilities</b>				
Short-term loans	VIII.20	162,690	113,054	81,055
Bills payable	VIII.21	7,026	7,388	9,018
Accounts payable	VIII.22	249,055	253,866	258,675
Advances from customers	VIII.23	113,405	100,551	90,020
Employee benefits payable	VIII.24	3,732	4,752	19,639
Taxes and fees payable	VIII.25	38,457	45,154	28,609
Interest payables		3,115	3,446	2,876
Other payables	VIII.26	100,886	84,370	71,893
Non-current liabilities due within one year	VIII.27	98,561	80,412	30,480
Other current liabilities	VIII.28	39,943	44,926	65,920
<b>Total current liabilities</b>		<b>816,870</b>	<b>737,919</b>	<b>658,185</b>
<b>Non-current liabilities</b>				
Long-term loans	VIII.29	178,289	226,663	236,484
Bonds payable	VIII.30	158,814	138,115	143,308
Long-term employee benefits payable	VIII.24	2,807	2,175	2,573
Long-term payables	VIII.31	29,827	43,526	36,652
Provisions	VIII.32	40,577	35,525	30,275
Deferred tax liabilities	VIII.18	44,013	44,843	43,974
Other non-current liabilities		6,510	5,127	4,855
<b>Total non-current liabilities</b>		<b>460,837</b>	<b>495,974</b>	<b>498,121</b>
<b>Total liabilities</b>		<b>1,277,707</b>	<b>1,233,893</b>	<b>1,156,306</b>
<b>Owner's equity</b>				
Paid-in capital	VIII.33	303,222	274,867	249,595
Capital reserves	VIII.34	51,575	52,720	46,041
Other comprehensive income	VIII.48	(33,146)	(14,008)	(6,718)
Specific reserve	VIII.35	931	1,685	3,284
Surplus reserves	VIII.36	183,272	176,763	169,466
General risk reserve	VIII.37	717	657	640
Retained earnings	VIII.38	228,996	213,492	173,182
<b>Total equity attributable to shareholders of the Company</b>		<b>735,567</b>	<b>706,176</b>	<b>635,490</b>
Minority interests		215,092	196,854	156,281
<b>Total equity</b>		<b>950,659</b>	<b>903,030</b>	<b>791,771</b>
<b>Total liabilities and equity</b>		<b>2,228,366</b>	<b>2,136,923</b>	<b>1,948,077</b>
<u>Fu Chengyu</u> Chairman	<u>Liu Yun</u> Chief Financial Officer	<u>Wen Dongfen</u> Head of the finance department		

The accompanying notes form part of these financial statements

### Consolidated Income Statement

For the years ended December 31, 2012, 2013, 2014

Items	Note	2014	2013	2012
		RMB million	RMB million	RMB million
<b>1. Operating revenue</b>	VIII.39	<b>2,889,934</b>	<b>2,945,075</b>	<b>2,830,609</b>
<b>2. Total operating costs</b>		<b>2,822,710</b>	<b>2,836,863</b>	<b>2,735,080</b>
Less: Operating costs	VIII.39	2,439,817	2,469,599	2,365,265
Business taxes and surcharges	VIII.40	205,829	207,822	205,828
Selling and distribution expenses		49,245	46,740	42,645
General and administrative expenses		77,303	78,171	76,899
Exploration costs		21,370	16,797	20,643
Financial expenses	VIII.41	19,111	13,398	15,953
Assets impairment losses	VIII.42	10,035	4,336	7,847
Add: Gain from changes of fair value (loss)	VIII.43	(4,151)	2,165	207
Investment income (loss)	VIII.44	12,028	3,882	6,212
<b>3. Operating profit (loss)</b>		<b>75,101</b>	<b>114,259</b>	<b>101,948</b>
Add: Non-operating income	VIII.45	7,726	5,536	6,573
Less: Non-operating expenses	VIII.46	3,974	4,980	3,859
<b>4. Profit before taxation</b>		<b>78,853</b>	<b>114,815</b>	<b>104,662</b>
Less: Income tax expense	VIII.47	33,704	37,147	34,871
<b>5. Net profit</b>		<b>45,149</b>	<b>77,668</b>	<b>69,791</b>
Less: Profit/loss attributable to minority interests		13,250	22,750	17,922
<b>6. Net profit attributable to parent company</b>		<b>31,899</b>	<b>54,918</b>	<b>51,869</b>
<b>7. Other comprehensive income</b>	VIII.48	<b>(23,494)</b>	<b>(7,088)</b>	<b>(121)</b>
<b>8. Total comprehensive income</b>		<b>21,655</b>	<b>70,580</b>	<b>69,670</b>
Less: Total comprehensive income attributable to minority interest		8,894	22,952	17,876
<b>9. Total comprehensive income attributable to parent company</b>		<b>12,761</b>	<b>47,628</b>	<b>51,794</b>
<u>Fu Chengyu</u> Chairman	<u>Liu Yun</u> Chief Financial Officer		<u>Wen Dongfen</u> Head of the finance department	

The accompanying notes form part of these financial statements

### Consolidated Cash Flows Statement

For the year ended December 31, 2012, 2013, 2014

Items	Note	2014 RMB million	2013 RMB million	2012 RMB million
<b>1. Cash flows from operating activities</b>				
Cash received from sales and services		3,191,661	3,223,824	3,288,264
Refund of tax and surcharges		2,637	2,424	1,998
Other cash received relating to operating activities		61,905	44,019	42,263
<b>Subtotal of cash inflows from operating activities</b>		<b>3,256,203</b>	<b>3,270,267</b>	<b>3,332,525</b>
Cash paid for goods and services		2,548,245	2,617,466	2,681,017
Cash paid to and for employees		94,565	106,475	93,044
Payments of taxes and surcharges		333,167	336,281	333,917
Other cash paid relating to operating activities		104,877	58,234	54,184
<b>Subtotal of cash outflows from operating activities</b>		<b>3,080,854</b>	<b>3,118,456</b>	<b>3,162,162</b>
<b>Net cash flows from operating activities</b>	VIII.49	<b>175,349</b>	<b>151,811</b>	<b>170,363</b>
<b>2. Cash flows from investing activities</b>				
Cash received from disposal of investments		90,750	7,281	15,724
Cash received from investment income		6,711	3,001	4,830
Net cash received from disposal fixed assets, oil and gas assets, intangible assets and other long-term assets		2,173	2,100	1,053
Net cash received from disposal of subsidiaries and other operating units		18		36
Other cash received relating to investing activities		5,091	14,593	58,910
<b>Subtotal of cash inflows from investing activities</b>		<b>104,743</b>	<b>26,975</b>	<b>80,553</b>

The accompanying notes form part of these financial statements.

**Consolidated Cash Flow Statement (Continued)**  
For the year ended December 31, 2012, 2013, 2014

Items	Note	2014 RMB million	2013 RMB million	2012 RMB million
Cash paid for purchasing fixed assets, oil and gas assets, intangible assets and other long-term assets		191,832	210,959	211,322
Cash paid for acquisition of investments		99,483	29,884	81,484
Net cash paid to acquire subsidiaries and other operating units		2,533	63	1,441
Other cash paid relating to investing activities		19,737	21,844	66,370
<b>Subtotal of cash outflows from investing activities</b>		<b>313,585</b>	<b>262,750</b>	<b>360,617</b>
<b>Net cash flows from investing activities</b>		<b>(208,842)</b>	<b>(235,775)</b>	<b>(280,064)</b>
 <b>3. Cash flows from financing activities</b>				
Cash received from capital contributions		36,880	59,413	18,538
Cash received from borrowings		1,085,643	1,257,240	825,111
Other cash received relating to financing activities		692	67	588
<b>Subtotal of cash inflows from financing activities</b>		<b>1,123,215</b>	<b>1,316,720</b>	<b>844,237</b>
Cash repayments of borrowings		1,065,594	1,190,409	738,103
Cash paid for dividends, profits distribution or interest		35,995	30,075	30,688
Other cash paid relating to financing activities		5,196	568	677
<b>Subtotal of cash outflows from financing activities</b>		<b>1,106,785</b>	<b>1,221,052</b>	<b>769,468</b>
<b>Net cash flows from financing activities</b>		<b>16,430</b>	<b>95,668</b>	<b>74,769</b>
<b>4. Effect of foreign exchange rate changes on cash</b>		<b>(786)</b>	<b>(1,226)</b>	<b>153</b>
<b>5. Net increase in cash and cash equivalents</b>		<b>(17,849)</b>	<b>10,478</b>	<b>(34,779)</b>
Add: Cash and cash equivalents at the beginning of the period		53,129	42,651	77,430
<b>6. Cash and cash equivalents at the end of the period</b>		<b>35,280</b>	<b>53,129</b>	<b>42,651</b>

Fu Chengyu  
Chairman

Liu Yun  
Chief Financial Officer

Wen Dongfen  
Head of the finance department

The accompanying notes form part of these financial statements.

### Consolidated Changes in Equity

For the year ended December 31, 2012, 2013, 2014

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Specialized reserve	Surplus reserve	General risk reserve	Retained earnings		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million		
<b>Balance at January 1, 2012</b>	<b>231,621</b>	<b>45,997</b>	<b>(6,643)</b>	<b>2,716</b>	<b>161,911</b>	<b>582</b>	<b>137,187</b>	<b>145,940</b>	<b>719,311</b>
<b>Amount of increase (decrease) of this year</b>	<b>17,974</b>	<b>44</b>	<b>(75)</b>	<b>568</b>	<b>7,555</b>	<b>58</b>	<b>35,995</b>	<b>10,341</b>	<b>72,460</b>
(1) Total comprehensive income	-	-	(75)	-	-	-	51,869	17,876	69,670
(2) Owner's devotion and decreased capital	17,974	44	-	-	-	-	(3)	2,140	20,155
1. Owner's devotion capital	17,974	-	-	-	-	-	-	2,538	20,512
2. Others	-	44	-	-	-	-	(3)	(398)	(357)
(3) Special reserve	-	-	-	568	-	-	-	95	663
1. Appropriation of special reserve	-	-	-	6,249	-	-	-	1,394	7,643
2. Use of special reserve	-	-	-	(5,681)	-	-	-	(1,299)	(6,980)
(4) Profit Distribution (decrease)	-	-	-	-	7,555	58	(15,871)	(9,770)	(18,028)
1. Appropriation to surplus reserve	-	-	-	-	7,555	-	(7,555)	-	-
Including : Withdrawal Statutory surplus reserve	-	-	-	-	7,502	-	(7,502)	-	-
Withdrawal other surplus	-	-	-	-	53	-	(53)	-	-
2. Appropriation to general risk provisions	-	-	-	-	-	58	(58)	-	-
3. Distribution to owner's	-	-	-	-	-	-	(8,250)	(9,759)	(18,009)
4. Others	-	-	-	-	-	-	(8)	(11)	(19)
(5) Internal transferring of owner's equity	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2012</b>	<b>249,595</b>	<b>46,041</b>	<b>(6,718)</b>	<b>3,284</b>	<b>169,466</b>	<b>640</b>	<b>173,182</b>	<b>156,281</b>	<b>791,771</b>
<b>Balance at January 1, 2013</b>	<b>249,595</b>	<b>46,041</b>	<b>(6,718)</b>	<b>3,284</b>	<b>169,466</b>	<b>640</b>	<b>173,182</b>	<b>156,281</b>	<b>791,771</b>
<b>Amount of increase (decrease) of this year</b>	<b>25,272</b>	<b>6,679</b>	<b>(7,290)</b>	<b>(1,599)</b>	<b>7,297</b>	<b>17</b>	<b>40,310</b>	<b>40,573</b>	<b>111,259</b>
(1) Total comprehensive income	-	-	(7,290)	-	-	-	54,918	22,952	70,580
(2) Owner's devotion and decreased capital	25,272	6,679	-	-	-	-	(281)	27,052	58,722
1. Owner's devotion capital	25,272	-	-	-	-	-	-	26,352	51,624
2. Others	-	6,679	-	-	-	-	(281)	700	7,098
(3) Special reserve	-	-	-	(1,599)	-	-	-	(444)	(2,043)
1. Appropriation of special reserve	-	-	-	5,253	-	-	-	1,074	6,327
2. Use of special reserve	-	-	-	(6,852)	-	-	-	(1,518)	(8,370)
(4) Profit Distribution (decrease)	-	-	-	-	7,297	17	(14,327)	(8,987)	(16,000)
1. Appropriation to surplus reserve	-	-	-	-	7,297	-	(7,297)	-	-
Including : Withdrawal Statutory surplus reserve	-	-	-	-	7,207	-	(7,207)	-	-
Withdrawal other surplus	-	-	-	-	90	-	(90)	-	-
2. Appropriation to general risk provisions	-	-	-	-	-	17	(17)	-	-
3. Distribution to owner's	-	-	-	-	-	-	(7,003)	-	(7,003)
4. Others	-	-	-	-	-	-	(9)	-	(9)
(5) Internal transferring of owner's equity	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2013</b>	<b>274,867</b>	<b>52,720</b>	<b>(14,008)</b>	<b>1,685</b>	<b>176,763</b>	<b>657</b>	<b>213,492</b>	<b>196,854</b>	<b>903,030</b>

The accompanying notes form part of these financial statements

### Consolidated Changes in Equity (Continued)

For the year ended December 31, 2012, 2013, 2014

Items	Shareholder's equity attributed to parent enterprise							Minority interest	Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Specialized reserve	Surplus reserve	General risk reserve	Retained earnings		
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million		
<b>Balance at January 1, 2014</b>	<b>274,867</b>	<b>52,720</b>	<b>(14,008)</b>	<b>1,685</b>	<b>176,763</b>	<b>657</b>	<b>213,492</b>	<b>196,854</b>	<b>903,030</b>
<b>Amount of increase (decrease) of this year</b>	<b>28,355</b>	<b>(1,145)</b>	<b>(19,138)</b>	<b>(754)</b>	<b>6,509</b>	<b>60</b>	<b>15,504</b>	<b>18,238</b>	<b>47,629</b>
(1) Total comprehensive income	-	-	(19,138)	-	-	-	31,899	8,894	21,655
(2) Owner's devotion and decreased capital	28,355	(1,145)	-	-	-	-	60	19,041	46,311
1. Owner's devotion capital	28,355	-	-	-	-	-	-	15,906	44,261
2. Others	-	(1,145)	-	-	-	-	60	3,135	2,050
(3) Special reserve	-	-	-	(754)	-	-	-	(294)	(1,048)
1. Appropriation of special reserve	-	-	-	4,674	-	-	-	1,798	6,472
2. Use of special reserve	-	-	-	(5,428)	-	-	-	(2,092)	(7,520)
(4) Profit Distribution(decrease)	-	-	-	-	6,509	60	(16,455)	(9,403)	(19,289)
1. Appropriation to surplus reserve	-	-	-	-	6,509	-	(6,509)	-	-
Including : Withdrawal Statutory surplus reserve	-	-	-	-	6,434	-	(6,434)	-	-
Withdrawal other surplus	-	-	-	-	75	-	(75)	-	-
2. Appropriation to general risk provisions	-	-	-	-	-	60	(60)	-	-
3. Distribution to owner's	-	-	-	-	-	-	(9,886)	(9,400)	(19,286)
4. Others	-	-	-	-	-	-	-	(3)	(3)
(5) Internal transferring of owner's equity	-	-	-	-	-	-	-	-	-
<b>Balance at December 31, 2014</b>	<b>303,222</b>	<b>51,575</b>	<b>(33,146)</b>	<b>931</b>	<b>183,272</b>	<b>717</b>	<b>228,996</b>	<b>215,092</b>	<b>950,659</b>

Fu Chengyu  
Chairman

Liu Yun  
Chief Financial Officer

Wen Dongfen  
Head of the finance department

The accompanying notes form part of these financial statements

**Company Balance Sheet**

As at December 31, 2012, 2013, 2014

Items	Note	At December 31		
		2014 RMB million	2013 RMB million	2012 RMB million
<b>Current assets</b>				
Cash		17,387	23,591	15,350
Accounts receivable		-	9	11
Prepayments		-	1	19
Other receivables		8,042	11,553	9,976
Inventories		1	-	-
Non-current assets due within one-year		600	-	-
<b>Total current assets</b>		<b>26,030</b>	<b>35,154</b>	<b>25,356</b>
<b>Non-current assets</b>				
Available-for-sale financial assets		858	1,014	933
Long-term equity investments	XIV.1	444,540	409,353	379,220
Fixed assets		906	998	434
Construction in progress		2	35	416
Intangible assets		18,024	18,550	19,036
Other non-current assets		41,930	37,574	35,560
<b>Total non-current assets</b>		<b>506,260</b>	<b>467,524</b>	<b>435,599</b>
<b>Total assets</b>		<b>532,290</b>	<b>502,678</b>	<b>460,955</b>

The accompanying notes form part of these financial statements.

**Company Balance Sheet (Continued)**

As at December 31, 2012, 2013, 2014

Items	Note	At December 31		
		2014 RMB million	2013 RMB million	2012 RMB million
<b>Current liabilities</b>				
Short-term loans		13,730	18,848	10,488
Accounts payable		3	169	8
Advances from customers		-	1	12
Employee benefits payable		10	10	9,607
Taxes and fees payable		1,636	1,515	524
Interest payable		-	85	-
Other payables		11,883	15,830	7,675
Non-current liabilities due within one year		143	5,000	8,812
Other current liabilities		-	5,000	5,026
<b>Total current liabilities</b>		<b>27,405</b>	<b>46,458</b>	<b>42,152</b>
<b>Non-current liabilities</b>				
Long-term loans		5,315	6,317	13,621
Long-term payables		3,763	8,461	8,425
Deferred tax liabilities		-	35	15
<b>Total non-current liabilities</b>		<b>9,078</b>	<b>14,813</b>	<b>22,061</b>
<b>Total liabilities</b>		<b>36,483</b>	<b>61,271</b>	<b>64,213</b>
<b>Owner's equity</b>				
Paid-in capital		303,222	274,867	249,595
Capital reserves		50,259	50,340	50,328
Other comprehensive income		(34)	74	50
Surplus reserves		29,898	26,286	23,623
Retained earnings		112,462	89,840	73,146
<b>Total owner's equity</b>		<b>495,807</b>	<b>441,407</b>	<b>396,742</b>
<b>Total liabilities and owner's equity</b>		<b>532,290</b>	<b>502,678</b>	<b>460,955</b>
<u>Fu Chengyu</u>	<u>Liu Yun</u>	<u>Wen Dongfen</u>		
Chairman	Chief Financial Officer	Head of the finance department		

The accompanying notes form part of these financial statements.

**Company Income Statement**

For the year ended December 31, 2012, 2013, 2014

Items	Note	2014	2013	2012
		RMB million	RMB million	RMB million
<b>1. Operating revenue</b>	XIV.2	<b>9,670</b>	<b>9,891</b>	<b>5,816</b>
<b>2. Total operating costs</b>		<b>3,777</b>	<b>3,186</b>	<b>3,749</b>
Less: Operating costs	XIV.2	-	34	18
Business taxes and surcharges		542	553	325
General and administrative expenses		1,765	1,102	1,483
Financial expenses		1,470	1,497	1,923
Assets impairment losses		-	-	-
Add: Investment income	XIV.3	30,109	21,519	20,083
<b>3. Operating profit</b>		<b>36,002</b>	<b>28,224</b>	<b>22,150</b>
Add: Non-operating income		1	1	93
Less: Non-operating expenses		(1,725)	94	31
<b>4. Profit before taxation</b>		<b>37,728</b>	<b>28,131</b>	<b>22,212</b>
Less: Income tax expense		1,608	1,496	582
<b>5. Net profit</b>		<b>36,120</b>	<b>26,635</b>	<b>21,630</b>
<b>6. Other comprehensive income</b>		<b>(108)</b>	<b>23</b>	<b>89</b>
<b>7. Total comprehensive income</b>		<b>36,012</b>	<b>26,658</b>	<b>21,719</b>

Fu Chengyu  
Chairman

Liu Yun  
Chief Financial Officer

Wen Dongfen  
Head of the finance department

The accompanying notes form part of these financial statements.

### Company Cash Flows Statement

For the year ended December 31, 2012, 2013, 2014

Items	Note	2014 RMB million	2013 RMB million	2012 RMB million
<b>1. Cash flows from operating activities</b>				
Cash received from sales and services		9,107	9,283	5,454
Other cash received relating to operating activities		27,363	30,210	44,855
<b>Subtotal of cash inflows from operating activities</b>		<b>36,470</b>	<b>39,493</b>	<b>50,309</b>
Cash paid for goods and services		-	-	-
Cash paid to and for employees		409	9,178	381
Payments of taxes and surcharges		3,104	533	501
Other cash paid relating to operating activities		31,198	31,039	46,017
<b>Subtotal of cash outflows from operating activities</b>		<b>34,711</b>	<b>40,750</b>	<b>46,899</b>
<b>Net cash flows from operating activities</b>	XIV.4	<b>1,759</b>	<b>(1,257)</b>	<b>3,410</b>
<b>2. Cash flows from investing activities</b>				
Cash received from disposal of investments		31,179	8,807	34,387
Cash received from investment income		21,966	21,735	20,470
Other cash received relating to investing activities		3,000	-	-
<b>Subtotal of cash inflows from investing activities</b>		<b>56,145</b>	<b>30,542</b>	<b>54,857</b>
Cash paid for purchasing fixed assets, intangible assets and other long-term assets		170	75	28
Cash paid for acquisition of investment		64,740	31,835	58,621
Other cash paid relating to investing activities		24	3,000	2
<b>Subtotal of cash outflows from investing activities</b>		<b>64,934</b>	<b>34,910</b>	<b>58,651</b>
<b>Net cash flows from investing activities</b>		<b>(8,789)</b>	<b>(4,368)</b>	<b>(3,794)</b>

**Cash Flow Statement (Continued)**

For the year ended December 31, 2012, 2013, 2014

Items	Note	2014 RMB million	2013 RMB million	2012 RMB million
<b>3.Cash flows from financing activities</b>				
Cash received from capital contribution		28,356	25,226	17,637
Cash received from borrowings		31,760	32,983	41,323
<b>Subtotal of cash inflows from financing activities</b>		<b>60,116</b>	<b>58,209</b>	<b>58,960</b>
Cash repayments of borrowings		47,738	35,632	59,681
Cash paid for dividends, profits distribution or interest		11,551	8,699	10,625
Other cash paid relating to financing activities		-	12	30
<b>Subtotal of cash outflows from financing activities</b>		<b>59,289</b>	<b>44,343</b>	<b>70,336</b>
<b>Net cash flows from financing activities</b>		<b>827</b>	<b>13,866</b>	<b>(11,376)</b>
<b>4.Effect of foreign exchange rate changes on cash</b>		<b>(1)</b>	<b>-</b>	<b>-</b>
<b>5.Net increase in cash and cash equivalents</b>		<b>(6,204)</b>	<b>8,241</b>	<b>(11,760)</b>
<b>Add: Cash and cash equivalents at the beginning of the period</b>		<b>23,591</b>	<b>15,350</b>	<b>27,110</b>
<b>6.Cash and cash equivalents at the end of the period</b>		<b>17,387</b>	<b>23,591</b>	<b>15,350</b>

Fu Chengyu  
Chairman

Liu Yun  
Chief Financial Officer

Wen Dongfen  
Head of the finance department

The accompanying notes form part of these financial statements.

## Company Changes in Equity

For the year ended December 31, 2012, 2013, 2014

Items	Shareholder's equity attributed to parent enterprise					Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	
	RMB million	RMB million	RMB million	RMB million	RMB million	
<b>Balance at January 1, 2012</b>	<b>231,621</b>	<b>50,382</b>	<b>(39)</b>	<b>21,460</b>	<b>61,932</b>	<b>365,356</b>
<b>Amount of increase (decrease) of this year</b>	<b>17,974</b>	<b>(54)</b>	<b>89</b>	<b>2,163</b>	<b>11,214</b>	<b>31,386</b>
(1) Total comprehensive income	-	-	89	-	21,630	21,719
(2) Owner's devotion and decreased capital	17,974	(54)	-	-	(3)	17,917
1. Owner's devotion capital	17,974	-	-	-	-	17,974
2. Others	-	(54)	-	-	(3)	(57)
(3) Special reserve	-	-	-	-	-	-
1. Appropriation of special reserve	-	-	-	-	-	-
2. Use of special reserve	-	-	-	-	-	-
(4) Profit Distribution (decrease)	-	-	-	2,163	(10,413)	(8,250)
1. Appropriation to surplus reserve	-	-	-	2,163	(2,163)	-
Including : Withdrawal Statutory surplus reserve	-	-	-	2,163	(2,163)	-
Withdrawal other surplus	-	-	-	-	-	-
2. Appropriation to general risk provisions	-	-	-	-	-	-
3. Distribution to owner's	-	-	-	-	(8,250)	(8,250)
4. Others	-	-	-	-	-	-
(5) Internal transferring of owner's equity	-	-	-	-	-	-
<b>Balance at December 31, 2012</b>	<b>249,595</b>	<b>50,328</b>	<b>50</b>	<b>23,623</b>	<b>73,146</b>	<b>396,742</b>
<b>Balance at January 1, 2013</b>	<b>249,595</b>	<b>50,328</b>	<b>50</b>	<b>23,623</b>	<b>73,146</b>	<b>396,742</b>
<b>Amount of increase (decrease) of this year</b>	<b>25,272</b>	<b>12</b>	<b>24</b>	<b>2,663</b>	<b>16,694</b>	<b>44,665</b>
(1) Total comprehensive income	-	-	24	-	26,635	26,659
(2) Owner's devotion and decreased capital	25,272	12	-	-	(275)	25,009
1. Owner's devotion capital	25,272	12	-	-	-	25,284
2. Others	-	-	-	-	(275)	(275)
(3) Special reserve	-	-	-	-	-	-
1. Appropriation of special reserve	-	-	-	-	-	-
2. Use of special reserve	-	-	-	-	-	-
(4) Profit Distribution (decrease)	-	-	-	2,663	(9,666)	(7,003)
1. Appropriation to surplus reserve	-	-	-	2,663	(2,663)	-
Including : Withdrawal Statutory surplus reserve	-	-	-	2,663	(2,663)	-
Withdrawal other surplus	-	-	-	-	-	-
2. Appropriation to general risk provisions	-	-	-	-	-	-
3. Distribution to owner's	-	-	-	-	(7,003)	(7,003)
4. Others	-	-	-	-	-	-
(5) Internal transferring of owner's equity	-	-	-	-	-	-
<b>Balance at December 31, 2013</b>	<b>274,867</b>	<b>50,340</b>	<b>74</b>	<b>26,286</b>	<b>89,840</b>	<b>441,407</b>

**Company changes in Equity (Continued)**

For the year ended December 31, 2012, 2013, 2014

Items	Shareholder's equity attributed to parent enterprise					Total equity
	Paid in Capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	
	RMB million	RMB million	RMB million	RMB million	RMB million	
<b>Balance at January 1, 2014</b>	<b>274,867</b>	<b>50,340</b>	<b>74</b>	<b>26,286</b>	<b>89,840</b>	<b>441,407</b>
<b>Amount of increase (decrease) of this year</b>	<b>28,355</b>	<b>(81)</b>	<b>(108)</b>	<b>3,612</b>	<b>22,622</b>	<b>54,400</b>
(1)Total comprehensive income	-	-	(108)	-	36,120	36,012
(2)Owner's devotion and decreased capital	28,355	(81)	-	-	-	28,274
1.Owner's devotion capital	28,355	(81)	-	-	-	28,274
2.Others	-	-	-	-	-	-
(3)Special reserve	-	-	-	-	-	-
1.Appropriation of special reserve	-	-	-	-	-	-
2.Use of special reserve	-	-	-	-	-	-
(4)Profit Distribution(decrease)	-	-	-	3,612	(13,498)	(9,886)
1.Appropriation to surplus reserve	-	-	-	3,612	(3,612)	-
Including : Withdrawal Statutory surplus reserve	-	-	-	3,612	(3,612)	-
Withdrawal other surplus	-	-	-	-	-	-
2.Appropriation to general risk provisions	-	-	-	-	-	-
3.Distribution to owner's	-	-	-	-	(9,886)	(9,886)
4.Others	-	-	-	-	-	-
(5)Internal transferring of owner's equity	-	-	-	-	-	-
<b>Balance at December 31, 2014</b>	<b>303,222</b>	<b>50,259</b>	<b>(34)</b>	<b>29,898</b>	<b>112,462</b>	<b>495,807</b>

Fu Chengyu  
Chairman

Liu Yun  
Chief Financial Officer

Wen Dongfen  
Head of the finance department

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

**I . COMPANY PROFILE**

As one of the largest integrated energy and chemical companies with upstream, midstream and downstream operations in China, China Petrochemical Corporation (“The Group”, Sinopec Group”) was established on July 27, 1998 according to Circular on Establishment Program of Sinopec Group by the State Economic and Trade Commission and Announcement on the articles of association of Sinopec Group (Guo Jing Mao Wei [1998] No.458). The Group’s predecessor is China Petrochemical Corporation established in 1983 as the economic entity with the qualification of a legal person under direct control by the State Council and is responsible for the national petrochemical production construction and import and export business planning. In July, 1998, China carried on major reform and restructuring on the petroleum and petrochemical industry, Sinopec Group completely merged China Eastern United Petrochemical (Group) Company Limited and finished transfer with China National Petroleum Corporation and hand-over with provincial/ municipal as well as specifically designated municipal petroleum companies, hence, it became a state-owned company solely invested by the State, functioning as a state-authorized investment organization in which the state holds the controlling share. The business license of enterprise legal person is numbered 100000000001244, the legal representative is Fu Chengyu, and Sinopec Group has a registered capital of RMB 274,867 million. The address of the Group is 22 Chaoyangmen North Street, Chaoyang District Beijing, China. Its principal operations include: exploration and development of petroleum and natural gas, petroleum refining, petrochemical, petroleum products wholesale and retail, exploration and designing, construction and installation of petroleum and petrochemical projects.

Sinopec Group has 38 wholly-owned companies and holding subsidiary companies, including China Petroleum & Chemical Company (Sinopec Corp.) listed on stock markets in Hong Kong, New York, London and Shanghai, Sinopec Oilfield Service Corporation(SSC) listed on stock markets in Hong Kong and Shanghai, Sinopec Engineering (Group) Co., Ltd. (SEG) listed on stock markets in Hong Kong, Kingdream Public Limited Company (KPLC) listed on stock markets in Shenzhen, as well as 34 wholly-owned unlisted companies.

Sinopec Group ranked the 3<sup>rd</sup> in Fortune Global 500 in 2014.

As of December 31, 2014, the assets of Sinopec Group totalled RMB 2,228,366million, the shareholders’ equity attributable to parent company totalled RMB 735,567million.

**II . THE BASIS OF THE PREPARATION OF FINANCIAL STATEMENTS**

The financial statements are 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.

The financial statements of Sinopec Group are prepared on a basis of going concern.

**III . STATEMENT OF COMPLIANCE TO THE CHINA ACCOUNTING STANDARDS**

These financial statements for the Relevant Periods present truly and completely the consolidated and company financial position as at 2012, 2013 and 2014, the consolidated and company results of operations, the consolidated and company cash flows, and other information for the Relevant Periods in compliance with the ASBE.

**IV . PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES**

1. Accounting period

The Group’s accounting year starts on January 1st and ends on December 31th.

2. Reporting currency

The Group uses the Renminbi as reporting currency.

The Group’s subsidiaries, joint ventures and associated enterprises shall determine their own reporting currency according to their primary economic environment and translate the reporting currency into RMB when preparing financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

3. Attribution of accounting measurement

The Group follows the accrual basis of accounting. The financial statements are prepared under the historical cost convention except for certain financial instruments.

4. Foreign currency translation

(1) Transactions in foreign currency

Transactions denominated in foreign currencies are translated into functional currency using the exchange rates prevailing at the dates of the transactions or at the date of the last month-end day. Foreign exchange transactions or others related shall be translated into functional currency at the actual exchange rate which is bid price or selling price of the bank.

Exchange differences arising on the settlement of monetary items or on the translation of monetary items at rates different from those at which they were translated on initial recognition during the period in previous financial statements should be recognized in profit or loss for the period in which they arise. Non-monetary items that are measured in terms of historical cost in a foreign currency should be translated into the reporting currency using the spot exchange rate at the date of the transaction. Accordingly, at each balance sheet date, the reporting currency amount of non-monetary items remains the same in the transaction. At each balance sheet date, non-monetary items that are measured at fair value in a foreign currency should be translated into the reporting currency using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are included in profit or loss for the current period. Foreign currency translation difference of specific borrowings accounts which is directly attributable to the construction or production of assets eligible for capitalization is capitalized according to regulations and included in the cost of related assets.

(2) Translation of financial statements in foreign currency

For subsidiaries that use foreign currency as their reporting currency, when financial statements are translated from the foreign currency into RMB, all asset and liability accounts should be translated into RMB using the market exchange rates on the consolidation date. All equity accounts, except for the “retained earnings” account, should be translated into RMB using the market exchange rates when the transactions take place. All accounts in the income statement and those items relating to profit distribution should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. As an adjustment item the impact of exchange rate changes on cash amount is reflected separately in the cash flow as “Effect of exchange rate changes on cash and cash equivalents”. All accounts in the cash flow statement should be translated into RMB using the market exchange rates prevailing on the consolidation date of the financial statements. Differences arising from the translation of financial statements are separately presented as the “other comprehensive income” in the shareholders’ equity of the balance sheet.

5. Recognition basis of cash and cash equivalents

Cash and cash equivalents include cash, bank deposit, other monetary assets and short-term non-equity investment. Non-equity investment that can be recognized as cash equivalents shall conform to the following: short-term (expiring within 3 months from purchase date), highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Financial asset and financial liabilities

(1) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised when the Group becomes one party of financial instrument contracts.

If one of the following conditions is met, the financial assets are terminated:

① The right of the contract to receive the cash flows of financial assets terminates

② The financial asset has been transferred, and is in accordance with the following conditions for derecognition.

If the obligations of financial liability have been discharged in total or in part, derecognize all or part of it. If the Group (debtor) makes an agreement with the creditor to replace the current financial liability of assuming new financial liability which contract provisions are different in substance, derecognize the current financial liability and meanwhile recognize as the new financial liability

If the financial assets are traded routinely, they are recognised and derecognised at the transaction date.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

(2) Classification of financial assets and financial liabilities

The Group classified its financial assets and financial liabilities at initial recognition into the following categories on the purpose of acquiring assets and assuming liabilities:

- A. financial assets and financial liabilities at fair value through profit or loss;
- B. held-to-maturity investments;
- C. loans and receivables;
- D. available-for-sale financial assets; and
- E. other financial liabilities

(3) Recognition and measurement of financial assets and financial liabilities

A. Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include held for trading and those designated upon initial recognition as at fair value through profit or loss.

This kind of financial assets and financial liabilities are subsequently measured at fair value, all gains and losses, arising from changes in fair value and dividend and interest relevant with the financial assets and financial liabilities are recognized in profit or loss for the current period.

In the case of financial assets and financial liabilities at fair value through profit or loss, associated transaction costs should be included in profit or loss for the current period when incurred. The declared but not yet paid dividend or the due but not yet received interest which are included in the payments are separately recognized as receivables.

B. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity whereby the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method, and gains or losses arising from the derecognition, impairment or amortization thereof should be recognized in profit or loss for the current period.

The due but not yet received interest which is included in the payments of Held-to-maturity investments is separately recognized as receivables.

C. Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market including account receivables and other receivables. The gains and losses of receivables arising from derecognition, impairment or amortization is recognised in profit or loss for the current period.

D. Available-for-sale financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale and those financial assets not classified as above mentioned. AFS financial assets are subsequently measured at fair value, the discount or premium are amortized using the effective interest method and recognised as interest income. The gains and losses arising from changes in fair value of AFS financial assets (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognised in profit or loss for the current period) are recognised as other comprehensive income, until the financial assets are derecognised, are transferred to profit or loss for the current period. Interest income and dividends related to the AFS financial assets are recognised as profit or loss for the current period.

The equity investment that is not quoted in an active market and the fair value cannot be measured reliably and the derivative financial instruments that are linked with and settled by such equity instruments shall be measured at cost.

E. Other financial liabilities

Derivative financial liabilities which are linked to equity instrument that is not quoted in an active market and its fair value cannot be reliably measured and settled by delivering the equity instrument are subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition or amortization is recognised in profit or loss for the current period.

(4) Transfer of Financial Assets

Transfer of financial assets refers to when the Group (the transferor) transfers or delivers a financial asset to a party (the transferee) other than the issuer of the financial asset.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

When the Group transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset should be derecognized. When the Group retains substantially all the risks and rewards of ownership of a financial asset, the Group should continue to recognize the financial asset.

The Group neither transfers nor retains substantially all the risks and rewards of ownership, shows as the following circumstances: if the Group has forgone control over the financial assets, derecognize the financial assets and verify the assets and liabilities; if the Group retains its control of the financial asset, the financial asset is recognized to the extent of its continuing involvement in the transferred financial asset and recognize an associated liability is recognized.

(5) Fair Value of Financial Instruments

The recognition of fair value of financial assets and financial liability is stated as note IV, 7.

(6) Impairment of Financial Assets

A. Accounts receivable

a. Bad debts provision method: The bad debts provision against accounts receivable adopts allowance method, when bad debts loss incurs, bad debts provision shall be made as written-off provision after approval from internal management authority.

b. Bad debts provision method and percentage: where there is objective evidence that a financial asset is impaired, impairment shall be recognized as the difference between the carrying amounts and expected future cash flows. The bad debts provision scope includes accounts receivable, other receivables, prepayments, long-term receivables, bills receivable, interest receivables and dividend receivables.

Bad debts provision against accounts receivable adopts specific identification and aging analysis method. Long-term receivables, bills receivable, interest receivable and dividend receivable, as well as accounts receivable from group company and its subsidiaries, accounts receivable from associates and joint ventures, imprest associated with staff and housing maintenance fund shall adopt specific identification, and need not recognised bad debts. Where there is objective evidence that the amount has little collectability, bad debts provision shall be recognised.

Besides the above receivables, if the individual receivables account for 10% of total receivables or above, or below 10% but there is obvious evidence that creditor's right is hard to collect, the debtor has serious financial difficulty, and has not been able to continue with the operation, or the business has been closed or will be closed down, specific identification shall be applied. For receivables which are not impaired in individual test or not performed an individual test, the provision for bad should be recognized on the basis of aging analysis.

The rate of provision for bad and doubtful debts in aging analysis method is as follows:

Aging	Proportion % of accounts receivable	Proportion % of Other receivables
Within 1 year (incl. 1 year)	0	0
1-2 years	30	30
2-3 years	60	60
Over 3 years	100	100

B. Held-to-maturity investments

Held-to-maturity investments impairment tests are required to be performed and when there is objective evidence of impairment, the Group should recognize impairment loss and impairment provision according to the difference between present value of the estimated future cash flow and the book value.

If there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

C. Available-for-sale financial assets

If there's objective evidence that AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognised directly in capital reserve are reversed and charged to profit or loss for the current period. The

## NOTES TO THE FINANCIAL STATEMENTS for the years ended December 31, 2012, 2013 and 2014

reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortized, current fair value and impairment losses previously recognised in profit or loss.

If, in a subsequent period, the fair value of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed and charged to profit or loss for the current period. The impairment losses of AFS equity instruments shall not be reversed through profit or loss.

### D. Financial assets measured at cost

If there's objective evidence that the financial assets are impaired, the difference between the carrying amount and the present value discounted at the market rate of return on future cash flows of the similar financial assets shall be recognised as impairment loss in profit or loss. The impairment loss recognised shall no longer be reversed.

## 7. Fair value measurement

The fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The group measures the relevant assets or liability at fair value supposing the orderly transaction of asset selling or liability transferring incurring in a principal market of relevant assets or liabilities. In the absence of a principal market for the asset or liability, the group assumes that the transaction take place at the most advantageous market of relevant asset or liability. A principal market (or the most advantageous market) is the transaction market that the group can enter into at measurement date. The Group implements the hypothesis used by the market participants to realize the maximum economic benefit in assets or liabilities pricing.

If there is an active market for the financial assets or financial liabilities, the Group uses the quotation on the active market as its fair value. For those in the absence of active market, the Group uses valuation technique to recognize its fair value.

For non-financial assets measured at fair value, the Group should consider the capacity of the market participants to put the assets into optimal use thus generating the economic benefit, or the capacity to sell assets to other market participants who can put the assets into optimal use and generate economic benefit.

The Group implements the valuation technique suitable for the current condition and supported by enough available data and other information , gives priority in use of relevant observable inputs, only the observable inputs cannot be obtained or impracticable before using unobservable inputs.

For the assets and liabilities measured at fair value or disclosure at financial statements, Fair value hierarchies are categorized into three levels as the lowest level input that is significant to the entire fair value measurement: Level 1: inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities. Level 2: inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3: inputs are unobservable inputs for the asset or liability.

At each balance sheet date, the group reviews the assets and liabilities recognized to be measured at fair value on the financial statements to make sure whether conversion occurs between fair value hierarchy.

## 8. Inventories

### (1) Classification of inventories

The Group classified the inventory as raw materials, turnover materials, commissioned materials, material in transit, product in process, inventory merchandise, finished goods issued, unsettled finished project and unfinished labour service costs.

### (2) Measurement of inventories issued from storage

Inventories were recorded at actual cost when acquired, goods issued from storage or upon requisition is determined on a weighted-average basis. For inventory that cannot be replaced, inventory that specifically purchased for specific project or labour service cost, are determined on specific identification method.

Turnover materials and auxiliary materials are recorded at planned cost, the difference between planned cost and actual cost shall be individually accounted in item of "cost difference". At end of month, the cost difference shall be carried forward and the planned cost shall be adjusted into actual cost.

### (3) Amortization of turnover materials

Turnover materials include low priced and easily worn articles, packaging and the turnover materials at construction work site. Turnover materials are generally amortized in full amount in one time. Turnover materials with high value and long service life shall be amortized on requisition.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

(4) Provision for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value, a provision for decline in value of inventories is recognized. If the circumstances that previously caused inventories to be written down no longer exist which results in the net realizable value being higher than the carrying amount, the amount of the write-down is reversed in income statement. The reversal is limited to the amount originally provided for the decline in value of inventories.

(5) Measurement of net realisable value

Net realisable value is the estimated selling price in the ordinary course of business, unless the estimated costs to completion and estimated costs necessary to make the sale.

(6) Inventory system

The inventories are counted with a perpetual inventory system.

9. Joint arrangement and joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. The group's joint arrangement is divided into joint operation and joint venture.

(1) Joint operation

A joint operation is a joint arrangement whereby the group that has joint control of the arrangement has rights to the assets, and obligations for the liabilities.

A joint operator shall recognize in relation to its interest in a joint operation:

- a. its assets, including its share of any assets held jointly;
- b. its liabilities, including its share of any liabilities incurred jointly;
- c. its revenue from the sale of its share of the output arising from the joint operation;
- d. its share of the revenue from the sale of the output by the joint operation;
- e. its expenses, including its share of any expenses incurred jointly.

(2) Joint ventures

A joint venture is a joint arrangement whereby the group that has joint control of the arrangement has rights to the net assets of the arrangement.

The accounting treatment is in accordance with the provisions of long-term investment under equity method

10. Long-term equity investments

The group's long-term equity investments include those that the group is able to exercise controls and significant influence over the investees and also the investments to joint ventures. Associates refer to the investees that the Group can exert significant influence.

(1) Recognition of investment cost

The group's long-term equity investments are measured at the cost of investments on acquisition. The cost of investments includes the assets paid for the investments, liabilities incurred or assumed and the fair value of issuing equity securities, as well as directly associated costs. While the cost of the long-term investment acquired from the business combination under common control is recognized as the carrying amount of combined party's equity recorded in the ultimate controlling party's consolidated financial statements at the combination date.

(2) Subsequent measurement and recognition of profit

Where the Group is able to exercise control over the investee, the long-term equity investment is accounted for using the cost method; where the Group has joint control or significant influence over the investee, the long-term equity investment is accounted for using the equity method.

A. Long-term equity investment accounted for using the cost method

For long-term equity investment which is accounted for using the cost method, investment income is recognized in profit or loss for the current period as the cash dividend or profit announced and distributed, except for those cash dividend or profit which have already included in the actual payment or consideration of offer when the investment was made.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

**B. Long-term equity investment accounted for using the equity method**

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the fair values of the investee's identifiable net assets, no adjustment is made to the initial investment cost; where the initial investment cost is less than the Group's interest in the fair values of the investee's identifiable net assets, the difference is charged to profit or loss for the current period, and the carrying amount of the long-term equity investment is adjusted accordingly.

For long-term equity investments accounted for using the equity method, the Company recognizes the investment income according to its share of net profit or loss of the investee, and the carrying amount of the long-term equity investments shall be adjusted accordingly; The carrying amount of the investment is reduced by the Company's share of the profit distribution or cash dividends declared by an investee; for changes in owners' equity of the investee other than those arising from its net profit or loss, other comprehensive income and profit distribution, the carrying amount of the long-term equity investment shall be adjusted and recognized to shareholder's equity.

**C. The transform between the cost method and the equity method in the measurement**

If an entity has significant influences or can implement joint control over investees due to additional investment, the initial investment cost is recognized as the sum of the fair value of the original portion of equity investment and the additional investment cost under equity method. For the original portion of equity investment classified as available for sale, the difference between the fair value and carrying amount and cumulative changes in fair value recognized as other comprehensive income shall be recognized as current profit or loss under equity method.

If an entity loses joint control or has no significant influence over investees due to the elimination of parts of the equity investment, the surplus equity after disposal shall be recognized as current profit or loss in accordance with the difference between fair value and carrying amount at the date of loss of joint control or significant influence. Other comprehensive income of original equity investment recognized under equity method shall be recognized in accordance with the same foundation used by the investees when dispose the relevant assets or liabilities directly in the termination of equity method. Other changes of owners' equity related to the original equity investment shall be transferred into profit or loss for current period.

**(3) Basis for recognition of control, joint control or significant influence over an investee**

Control refers to the Group has the ability to influence the return amounts which are enjoyed by the Group through participation in the invested entity related activities by using the power to the invested entity. Subsidiaries refer to the subjects controlled by the Group (including enterprises, integral part of the invested entity, structured entity controlled by enterprises .etc).

Joint control refers to any joint venture party alone cannot control the production and operation activities of the joint venture, decisions related to the basic operating activities of joint venture should require the unanimous consent of the parties sharing control. In determining whether there is a joint control, the first judge is to determine whether the relevant arrangement is controlled collectively by all the parties involved or the group of the parties involved, if the parties involved or the group of the parties involved must act consistently to determine the relevant arrangement, it is considered that the parties involved or the group of the parties involved control the arrangement. Secondly, and then determine whether the decisions related to the basic operating activities should require the unanimous consent of the parties involved. If two or more parties involve in the collectively control of certain arrangement, it shall not be considered as joint control. Protection of rights shall not be considered in determining whether there is joint control.

Control refers to the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

Significant influence refers to the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When the Group, directly or indirectly through subsidiaries, owns 20% of the investee (including 20%) or more but less than 50% of the voting shares, it has significant impact on the investee unless there is clear evidence to show that in this case the Group cannot participate in the production and business decisions of the investee, and cannot form a significant influence; when the Group owns 20% (excluding) or less of the voting shares, generally it is not considered to have a significant impact on the investee, unless there is clear evidence to show that in this case the Group can participate in the production and business decisions of the investee so as to form a significant influence.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

(4) Disposition of the long-term equity investments

When disposing of a long-term equity investment, the difference between its book value and the actual purchase price shall be included in the current profits and losses. If any change other than the net profits and losses of the invested entity occurs and is included in the owner's equity, the portion previously included in the owner's equity shall, when disposing of a long-term equity investment measured by employing the equity method, be transferred to the current profits and losses according to a certain proportion.

If an entity loses joint control or has no significant influence over investees due to the elimination of parts of the equity investment, the surplus equity after disposal shall be recognized as current profit or loss in accordance with the difference between fair value and carrying amount at the date of loss of joint control or significant influence. Other comprehensive income of original equity investment recognized under equity method shall be recognized in accordance with the same foundation used by the investees when dispose the relevant assets or liabilities directly in the termination of equity method. Other changes of owners' equity related to the original equity investment shall be transferred into profit or loss for current period.

If an entity loses control over investees due to the elimination of parts of the equity investment, the surplus owners' equity that are able to implement joint control or have significant influence over investees shall be measured at equity method and are deemed to be recognized under equity method since the acquisition date. The surplus owners' equity that are unable to implement joint control or have no significant influence over investees shall be processed in accordance with "ASBE 22-Recognition and Measurement of financial instruments", and the difference between fair value and carrying amount at the day of loss of control shall be recognized as profit or loss for current period.

(5) Impairment provision of the long-term equity investments

At each balance sheet date, the Group will check the carrying value of long-term equity investments. If there is objective evidence that the long-term equity investments have been impaired, the carrying value of long-term equity investments is written down to the present value of estimated future cash flows and the written down amount is recognized in profit or loss. Such impairment loss is not reversed.

11. Fixed assets

(1) Recognition of fixed assets

Fixed assets refer to tangible assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and have a useful life of more than one year. An item of fixed asset should be recognized if, and only if it is probable that future economic benefits associated with the asset will flow into the Group and the cost of the asset can be measured reliably.

(2) Fixed assets measurement

Fixed assets are initially measured at actual costs of acquisition.

(3) Classification of fixed assets and depreciation policy

The Group classifies the fixed assets and recognizes the expected useful lives, estimated net residual values rates and the depreciation method of the fixed assets according to China Petrochemical Enterprise Standard Q/SH0417-2011 "Classification of fixed assets, code and confirmation rules of single fixed assets".

All the fixed assets are depreciated, except the fixed assets that are depreciated fully but be used continually or the land that is valued individually as fixed asset according to the rules of audit of assets.

The Company uses the straight line method for depreciation. Without considering impairment provision, the Company's annual depreciation rates are shown as follows according to the category, expected useful lives and estimated net residual values rates.

Categories	Estimated useful lives	Residual percentage%	Annual depreciation rates
Plant and buildings	12-40	3	2.43-8.08
General equipment	4-20	3	4.85-24.25
Special equipment for oil and gas	8-18	3	5.39-12.13
Special equipment for petroleum and chemical industry	10-20	3	4.85-9.70
others	4-30	0-3	3.23-25.00

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

For the fixed assets that have been provided for impairment loss, and the fixed assets that the estimated useful life and the estimated net residual value have been changed, the related depreciation charge and depreciation rate is recalculated based upon the adjusted carrying amounts over their remaining useful lives. But the accumulated depreciation having been provided previously will not be adjusted when the amount of depreciation is adjusted due to depreciation reserve incurred.

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

Fixed assets under finance lease should be depreciated over the remaining useful life if there is reasonable certainty that the Group is to obtain ownership of the leased asset by the end of the lease term. If there is no reasonable certainty that the Group is to obtain ownership of the leased asset by the end of the lease term the asset should be depreciated over the shorter of the lease term and its remaining useful life.

(4) Subsequent expenditure of the fixed assets

Subsequent expenditure of the fixed assets includes the renovation spending and the cost of repairs in the using progress.

The renovation spending should be recognized in the carrying amount of the item if the recognition criteria are satisfied and the carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of fixed assets not satisfying the recognition criteria of fixed assets are recognised in profit or loss as incurred.

(5) Provision for impairment of fixed assets

At each balance sheet date, the Group inspects all the fixed assets. Some of the fixed assets may be assessed for impairment on an individual basis due to the market price falling substantially, or obsolescence, damage, idle for a long time. The amount of the impairment loss is measured and the depreciation reserve is provided as the difference between the recoverable amount and the carrying amount of the fixed assets. Such impairment loss is not to be reversed in the future accounting years.

(6) Held-for-sale fixed assets

The fixed assets are classified as held-for-sale assets when the following conditions are satisfied at the same time:

- A. the Company has already made a resolution of the disposal of fixed assets;
- B. the Company has signed an irrevocable transfer agreement with the transferee;
- C. the transfer is likely to be completed within a year.

Held-for-sale fixed assets include single assets and disposal groups. In specific circumstances, the disposal groups include goodwill acquired in business combinations.

Held-for-sale fixed assets will not be depreciated; they are measured at the lower of the carrying amount and fair value deducting disposal costs.

When an asset or disposal group is classified as held-for-sale, but no longer satisfies the recognition criteria subsequently, the Group shall stop classifying it as held-for-sale, and measure it at the lower of the two amounts:

- A. The asset or disposal group's adjusted carrying amount prior to the classification of held for sale, which is adjusted according to the original depreciation, amortization or impairment under the assumption of not being classified as held for sale; and
- B. The resell recoverable amount of the date of deciding not to sell.

For intangible assets and other illiquid assets which satisfy the criteria of held for sale, treat it as to the above-mentioned principles.

12. Oil and gas properties

(1) Classification, recognition and measurement of oil and gas properties

The oil and gas properties of the Group include drilling activities and other relevant activities, the rights and interests of proved and unproved mining areas. An item of oil and gas properties should be recognized and be measured initially according to the actual cost occurred if:

- A. it is probable that future economic benefits associated with the asset will flow to the Group; and
- B. the cost of the asset can be measured reliably.

After the obtainment of the rights and interests of proved and unproved mining areas, the initial costs of the oil and gas properties shall be measured according to the costs of obtainment.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

Where an enterprise eventually abandons an unproved mining area due to its failure to discover and prove any economically exploitable reserve therein, its book value at the time of abandonment shall be recorded in the profits and losses of the current period.

With a view to the drilling exploration disbursements, after a well is completed if:

A. It is sure that an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling this well shall be carried forward as cost of the well and relevant facilities;

B. It is sure that no economically exploitable reserve is discovered and proved in the well, the result of the disbursements for drilling this well less the net salvage value shall be recorded in the profits and losses of the current period.

C. It is not sure whether or not an economically exploitable reserve is discovered and proved in the well, the disbursements for drilling the well shall be temporarily capitalized within 1 year after it is completed. If one year has lapsed since the completion of the well, it is still impossible to make sure whether or not an economically exploitable reserve is discovered and proved in a well, if the following conditions are satisfied simultaneously, the capitalized disbursements for drilling the well shall continue to be temporarily capitalized, otherwise they shall be recorded in the profits and losses of the current period:

a. A sufficient reserve has been discovered in the well, but in order to make sure whether or not it is an economically exploitable reserve, it is necessary to carry out further exploration activities in order to make sure whether or not it is an proved economically exploitable reserve; and

b. Further exploration activities are being implemented or are about to be implemented under a specific plan.

D. Where a new economically exploitable reserve is discovered and proved in a well for which the drilling exploration disbursements have been expensed, no adjustment may be made to the expensed drilling exploration disbursements and the disbursements for re-drilling exploration and for the completion of the well shall be capitalized.

The disbursements for drilling exploration and the related auxiliary equipment shall be capitalized.

The non-drilling exploration disbursements shall be recorded in the profits and losses of the current period at the time of incurrence.

The disbursements for the development of oil and gas shall be transferred into the costs of the oil and gas properties, when they reach the condition for its intended use (or a well is completed).

(2) Depletion policy of the oil and gas properties

The companies of oil and gas exploration affiliated the Group compute the depletion of oil and gas properties by adopting the output method.

(3) The provision for impairment of the oil and gas properties

At each balance sheet date, the Group tests depreciation on the rights and interests of unproved mining areas; tests depreciation by mining when the wells, related facilities and the rights and interests of proved mining areas have the obvious signs of impairment. If the recoverable amount is less than the carrying amount of the oil and gas properties in accordance with the bleak assessment prospects of oil and gas reserves in unproved mining areas, a long-term continuous significant drop of crude oil prices, a significant drop of economic recoverable reserves of oil and gas and other reasons. The difference should be recognized the impairment loss and provide the depreciation reserve. Such impairment loss is not reversed.

(4) The disposal costs of the oil and gas properties

For the Group's obligation to do the discarded dispose for any mining area, if this obligation satisfies the conditions for the recognition of the expected liabilities, it shall increase the corresponding book value of oil and gas properties and recognize this obligation as an expected liability. The disposal costs of oil and gas properties are amortized by instalment according to the depletion policy of the related properties. The differences between the present value and the estimated future dismantlement are recorded in the financial expenses of the current period and recognized the expected liabilities over their estimated useful lives.

The disposal costs of the oil and gas properties without extraction of mine disposal fees are recorded in the profits and losses of the current period at the time of incurrence.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

13. Construction in progress

(1) Valuation of construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including interest costs that shall be determined in light of the actual cost incurred of the specially borrowed loan and a general borrowing used for the acquisition and construction of assets eligible for capitalization.

(2) The standards and time-point of the construction in progress transferred to fixed assets

All the expenditure incurred for the construction in progress before the construction reaching the condition for intended use, should be included in the recorded value of fixed assets. Construction in progress is transferred to fixed assets using the estimated value according to the actual cost of the project budget, cost, or engineering when the asset is ready for its intended use, having not been handled the completion of final accounts. After handling the final account, the provisional estimate of value should be adjusted according to the actual cost under the provision for depreciation of fixed assets of the Group, but the original provision for depreciation is not necessary to adjust.

(3) Provision for impairment of the construction in progress

At each balance sheet date, the Group conducts a comprehensive inspection on the construction in progress that exist signs of impairment. If the recoverable amount is less than the carrying amount of the construction in progress on an individual, the difference should be recognized as the impairment loss and Provision for impairment is to be recognised. Such impairment loss is not reversed.

14. Borrowing costs

(1) Recognition principals for borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalized as part of the cost of the asset. Other borrowing costs should be recognized as an expense in the period in which they are incurred.

Assets eligible for capitalization refers to the fixed assets, investment property, inventories and other assets which are need to go through a long period of acquisition, construction or production activities to achieve its intended use or sale situations.

(2) Borrowing costs capitalization

Borrowing costs should be capitalized only if all of the three conditions are satisfied:

- A. Expenditures for the asset are being incurred,
- B. Borrowing costs are being incurred;
- C. Acquisition, construction and production activities necessary to prepare the asset for its intended use or sale have commenced.

Capitalization of borrowing costs should be suspended when the acquisition, construction or production of qualified asset is abnormally interrupted for a consecutive period of more than three months.

The capitalization of borrowing costs should cease when the acquisition, construction or production of qualified asset is prepared for its intended use or sale.

The capitalization of borrowing costs should cease when the individual component parts of the acquisition, construction or production of qualified asset have be finished and can be used alone.

(3) Capitalization period of borrowing costs

The capitalization period shall refer to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

(4) Calculation of the amount of capitalization of borrowing costs

As for specifically borrowed loans, the to-be-capitalized amount of interest costs and auxiliary costs shall be determined in light of the actual cost incurred of the specially borrowed loan at the present period minus the income of interests earned on the unused borrowing loans as a deposit in the bank or as a temporary investment, before the acquisition, construction or production of qualified asset preparing for its intended use or sale.

Where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

disbursements minus the general borrowing by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.

Where there is any discount or premium, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined by the real interest rate method, and an adjustment shall be made to the amount of interests in each period.

**15. Intangible assets**

(1) Valuation and amortization method of intangible assets

The Company initially measures the intangible asset at cost, and analyzes and judges its service life when obtained. An intangible asset with a finite useful life is amortized on a straight-line basis over the expected useful lives when the asset is available for use.

(2) Useful life and Amortization period

A. Being derived from any contractual right or other statutory rights, the useful life of intangible assets is no more than the period of the contractual rights or other legal rights; if the contractual rights or other statutory rights can continue due to renewal and it can be proved that the Group do not need to pay a large cost for the renewal, the renewal period should be credited in the useful life.

B. When there are no rules about the useful life in the contract or the law, the Group recognizes the period of intangible assets that bring economic benefit to the enterprise, by hiring experts to conduct feasibility studies, comparing the condition with the same industry and referring to the historical experience under various aspects.

C. After these efforts above, if it is still unable to forecast the period when the intangible asset can bring economic benefits to the enterprise, it shall be regarded as an intangible asset with uncertain service life.

(3) Provision for impairment of the intangible assets

At each balance sheet date, for an intangible asset with a finite useful life, the Group tests possible depreciation on an individual basis. If the recoverable amount is less than the carrying amount of the intangible assets, the difference should be recognized the impairment loss and provide the depreciation reserve. Such impairment loss is not reversed.

An intangible asset with an indefinite useful life is not amortized. The Group carries the depreciation test at the end of each financial year, and redetermines the cost at the fair value. The difference between the fair value and the original book value is recognized the impairment loss and provide the depreciation reserve.

(4) Classification criteria between expenditure on the research phase and expenditure on the development phase.

Expenditure on the development phase is capitalized only when the Company can satisfy all of the following conditions:

- A. The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- B. Its intention to complete the intangible asset is to use or sell it;
- C. How the intangible asset will generate economic benefits;
- D. The development expenditures of the intangible assets can be reliably measured.

**16. Long-term deferred expenses**

Long-term deferred expenses of the Group is recorded at actual cost and amortized evenly over their expected beneficial periods. For long-term deferred expenses that cannot bring benefit to the Group in the subsequent accounting periods the amortized value of the expenses should be charged completely to profits and losses for current period.

**17. Employee benefits**

(1) The scope of employee benefits

Employee benefits are all forms of consideration and compensation given by the Group in exchange for service rendered by employees or the termination of employment. Employee benefits include short term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Employee benefits include benefits provided to employees' spouses, children, other dependants, survivors of the deceased employees or to other beneficiaries.

During the accounting period in which the employee render the related services, wages, bonuses ,social security contributions(including medical insurance, injury insurance, maternity insurance, etc.) and house funding are

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

recognized as liability and recognized as current profit or loss or assets related costs. If the short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service and have significant financial impact, the liability shall be measured as the discounted amounts.

(2) Post-employment benefits

Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans. Under defined contribution plans, an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Defined benefit plans are other post-employment benefit plans except for defined contribution plans.

Defined contribution plans include the basic pension insurance, unemployment insurance and annuity.

The Group sets up annuity scheme according to the “the approval to enterprise annuity scheme of China Petrochemical Group” (Guozifenpei [2009] No.1387) issued by State-owned Assets Supervision and Administration Commission and relevant policies of the Group. In addition to this, the Group has no other significant commitments of social security of employees.

When an employee has rendered service to the Group during an accounting period, the Group shall recognise the accrued amount according to the defined contribution plans as a liability and charged to the cost of an asset or to profit or loss in the same period.

Under defined benefit plans, the welfare costs are determined by expected cumulative unit credit method, which was evaluated by independent actuaries in the annual balance sheet date. The employee benefits of the Group’s defined benefit plans include the following components:

① Service cost, which includes current service cost, past service cost and settlement gains or losses. Current service cost refers to the added present value of defined benefit plans caused by the employee’s services. Past service cost refers to the increase or decrease present value of defined benefit plans related to the past employee’s services caused by the change of defined benefit plans.

② Net interest of defined benefit plans’ net liabilities or net assets includes the interest income of plan assets, interest expense of defined benefit plans obligations and the interest influenced by the assets limit.

③ Re-measured the change of defined benefit plan’s net liabilities or net assets.

Unless required or permitted by other accounting standards for employee benefit costs included in the cost of assets, those costs which described in item ① and item ② are recognized in profit or loss; the costs which described in item ③ are recognized in other comprehensive income and will not be reversed to profit or loss in subsequent accounting periods while can be transferred within the scope of equity.

(3) Termination benefits

The Group recognizes termination benefits liabilities and profit or loss in the period in the earlier date of the followings: (i) The outgoing business cannot unilaterally withdraws the termination plan or reduce the termination benefits under the proposal, or encourage the employees to accept voluntary redundancy compensation when the outgoing business cannot withdraw from the termination of employment or the layoff proposal ; or (ii) The Group recognizes the payment of the termination benefits costs and expenses.

(4) Other long-term employee benefits

Other long-term employee benefits provided by employees of the Group to meet the conditions of a defined contribution plan shall be treated in accordance with the relevant provisions of the above defined contribution plans. The employee benefits compliance with the refined benefit plan are processed in accordance with the relevant provisions of these refined benefit plan, while the related employee benefits of “Re-measured the change of defined benefit plan’s net liabilities or net assets” are recognized in profit or loss or other cost of related assets.

18. Bonds payable

The Group issues bonds in accordance with the actual issuing price, the difference between the issuing price and the total face value of the bones, as the bonds’ premium or discount, is amortized in the straight-line method when the interest accrued during the duration of the bonds and dealt with the principles of borrowing costs.

The Group recognize accrued interests in accordance with the face value of the bonds and the explicit interest rate. The interests are separately recognized in the project cost and current financial expenses in accordance with the principles of borrowing costs capitalized.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

19. Accrued liabilities

The accrued liabilities are the present obligation likely incurred due to external guarantee, trade acceptance discounts, pending litigations, product quality, disposal costs of oil and gas properties, loss of contracts and restructuring obligations, etc. The Group shall record the obligations satisfying the following conditions into the liabilities of the balance sheet: the obligation is the Company's current obligations; the fulfilment of the obligation may possibly result in an outflow of economic benefits; and the amounts of the obligations can be measured reliably.

20. Revenue recognition

(1) Sale of goods

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

Related payments are received or supporting documents for cash collection exist; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(2) Rendering services

When the outcome of a transaction involving the rendering of service can be estimated reliably the service revenue should be recognized based on a percentage-of-completion method at the balance sheet date.

(3) Assigning use right of assets

Revenue from assigning use right of assets should be recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably

21. Construction contracts

(1) Recognition principles of contract revenue and contract costs

If the outcome of a construction contract can be estimated in a reliable way, the contract revenue and contract costs shall be recognized in light of the percentage-of-completion method on the date of the balance sheet.

If the outcome of a construction contract cannot be estimated in a reliable way, it shall be treated in accordance with the circumstances as follows, respectively: if the contract costs can be recovered, the contract revenue shall be acknowledged in accordance with contract costs that can be recovered and the contract costs shall be acknowledged as contract expenses in the current period they are incurred; if the contract costs cannot be recovered, these costs shall be acknowledged as contract expenses immediately when incurred and no contract revenue shall be acknowledged.

(2) The methods of ascertaining schedule of construction contracts

The methods of ascertaining schedule of construction contracts are that the proportion of the completed contract work against the expected total contract work.

(3) The recognition standard and the accrual method of contract losses

At the end of each year, the Group conducts a comprehensive inspection of the construction contract. If the total expected contract costs exceed the total expected contract revenue, the difference between them shall be recorded in the profits and losses.

22. Government grants

(1) Government grants related to assets

Government grants related to assets refers to the government grants for the construction or otherwise of long-term assets acquired by the Group. The government grants related to assets are measured at fair value, if fair value is not reliably determinable; the item is measured at a nominal amount of RMB 1 Yuan. The government grants measured at a nominal amount are recognized in profit or loss. Other government grant related to assets are recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

(2) Government grants related to income

The government grants other than related to assets acquired by the Group are measured at the amount received or receivable. For government grants related to income, if the grants are a compensation for related expenses or losses to be incurred in subsequent periods, the grants are recognized as deferred income, and recognized in profit or loss over

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

the periods in which the related costs are recognized; if the grants are a compensation for related expenses or losses already incurred, the grants are recognized immediately in profit or loss for the current period.

(3) The return of government grants

When recognised government grants need to be returned, the balance of deferred income is offset against book balance of deferred income and the excess is recognised in profit or loss for the current period; if there is no related deferred income, it is directly recognised in profit or loss for the current period.

23. Leases

The Group has classified a lease as a financing lease or an operating lease.

(1) Operating leases:

The rents from operating leases shall be recorded by the lessee in the relevant asset costs or the profits and losses of the current period by using the straight-line method over each period of the lease term. The initial direct costs incurred by a lessee shall be recognized as the profits and losses of the current period.

(2) Financing leases:

On the lease beginning date, a lessee shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. The initial direct costs such as commissions, attorneys' fees and travelling expenses, stamp duties directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The unrecognized financing charge shall be amortized to each period during the lease term according to the effective interest rate method and the Group recognizes the financing charge in the current period. Contingent rents shall be recognized as an expense in the period in which they are actually incurred.

24. Deferred tax assets and deferred tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base are recognised as deferred tax using the balance sheet liability method.

Where an enterprise obtains assets or liabilities, it shall determine its tax base. Where there is difference between the carrying amount of the assets or liabilities and its tax base, the Group should classify them into taxable temporary differences and deductible temporary differences, and conduct accounting treatment respectively. The term "deductible temporary difference" shall refer to temporary differences that will result in amounts that are deductible in the future pursuant to the tax law. The taxable temporary differences shall be recognized as a deferred income tax liability according to the applicable tax rate. As for any deductible loss or deductible temporary differences, the corresponding deferred income tax assets shall be determined to the extent that the amount of future taxable income to be offset by the deductible loss or tax deduction to be likely obtained.

On the balance sheet date, where there is any exact evidence showing that it is likely to acquire sufficient amount of taxable income tax in a future period to offset against the deductible temporary difference, the deferred income tax assets unrecognized in prior periods shall be recognized.

The carrying amount of deferred income tax assets shall be re-examined on balance sheet day. If it is unlikely to obtain sufficient taxable income taxes to offset the benefit of the deferred income tax assets, the carrying amount of the deferred income tax assets shall be written down. When it is probable to obtain sufficient taxable income taxes, such write-down amount shall be subsequently reversed.

25. Hedging

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.

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. For a hedge of foreign currency risk, a non-derivative financial asset or non-derivative financial liability may also be used as a hedging instrument.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

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.

(1) 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): (1) the cumulative gain or loss on the hedging instrument from inception of the hedge; and (2) 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 or non-financial liability, the associated gain or loss is removed from shareholders' equity, included in the initial cost of the non-financial asset or liability, and recognised in profit or loss in the same year 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.

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.

(2) 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 re-measuring 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.

3) Hedge of net investments in foreign operations

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.

26. Specialized reserve

According to the Circular of Administrative Measures On The Recognition And Use of Enterprises' Specialized Reserve For Safety Production issued by the Ministry of Finance, and the State Administration of Work Safety (Cai Qi[2012] No. 16), the Group accounts the specialized reserve for safety production.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

Specialized reserve for safety production accounted in “specialized reserve” account, and meanwhile calculated in the costs of related products or the profit or loss.

When specialized reserve for safety production is used according to the specified scope, payment of expenses is directly offset against the special reserve; payment in formation of fixed assets is first imputed through “construction in progress” account, then recognized as fixed assets when the project is completed to its intended use state; meanwhile, offset the special reserve according to the cost in formation of the fixed assets and recognize the same amount of accumulated depreciation. The fixed assets will no longer depreciate in the subsequent accounting periods.

**27. Segment reporting**

The Company determines its operating segments based on the internal organizational structure, management requirements, and the internal reporting system, and determine the reportable segments based on the operating segments.

Operating segments refer to the components of the Company which satisfy the following conditions at the same time:

- A. The components can generate income and incur expenses in daily activities;
- B. The management can periodically evaluate the operating results of the component to determine its allocation of resources and evaluate their performance;
- C. The Company can obtain the financial position, operating results and cash flows and other relevant accounting information of the components.
- D. The Company’s reportable segments include:
  - E. Exploration and Production Segment
  - F. Refining Segment
  - G. Chemicals Segment
  - H. Marketing and Distribution Segment
  - I. Oil & Petrochemical Engineering Technical Services Segment
  - J. Others Segment

The accounting policies of the operating segments are the same as significant accounting policies of the Company.

**28. Business combination**

**(1) Business combinations under the same control**

For the business combination involving entities under common control, the assets and liabilities that are obtained in the business combination shall be measured at their original carrying amounts at the combination date as recorded by the party being combined, except for the adjustments of different accounting policies. The difference between the carrying amount of the net assets obtained and the carrying amount of assets paid shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess difference shall be adjusted to the retained earnings.

Business combinations involving enterprises under common control and achieved in stages

In the separate financial statements, the initial investment cost is calculated based on the shareholding portion of the assets and liabilities obtained and are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the initial investment cost and the sum of the carrying amount of the original investment cost and the carrying amount of consideration paid for the combination is adjusted to the capital reserve, if the capital reserve is not sufficient to absorb the difference, the excess difference shall be adjusted to retained earnings.

In the consolidated financial statements, the assets and liabilities obtained at the combination shall be measured at the carrying value as recorded by the enterprise at combination date, except for adjustments of different accounting policies. The difference between the sum of the carrying value from original shareholding portion and the new investment cost incurred at combination date and the carrying value of net assets obtained at combination date shall be adjusted to capital reserve, if the balance of capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained earnings. The long-term investment held by the combination party, the recognized profit or losses, comprehensive income and other change of shareholding’s equity at the closer date of the acquisition date and combination date under common control shall separately offset the opening balance of retained earnings and profit or loss during comparative statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

(2) Business combination not under the same control

For business combinations involving entities not under common control, the consideration for each combination is measured at the aggregate fair value at acquisition date, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. At acquisition date, the acquired assets, liabilities or contingent liabilities of acquiree are measured at their fair value.

Business combinations involving enterprises not under common control and achieved in stages

In the separate financial statements, the initial investment cost of the investment is the sum of the carrying amount of the equity investment held by the entity prior to the acquisition date and the additional investment cost at the acquisition date. The disposal accounting policy of other comprehensive income related with equity investment prior to the purchase date recognized under equity method shall be compliance with the method when the acquiree disposes the related assets or liabilities. Shareholder's equity due to the changes of other shareholder's equity other than the changes of net profit, other comprehensive income and profit distribution shall be transferred to profit or loss for current period when disposed. The accounting policy of the equity investment prior to purchase date shall be compliance with "ASBE 22- Recognition and Measurement of financial instruments", which states that the cumulative changes in fair value recognized in other comprehensive income shall be transferred to profit or loss for current period when accounted for using cost method.

In the consolidation financial statements, the combination cost is the sum of consideration paid at acquisition date and fair value of the acquiree's equity investment held prior to acquisition date; the cost of equity of the acquiree held prior to acquisition date shall be re-measured at the fair value at acquisition date, the difference between the fair value and the carrying amount shall be recognized as investment income or loss for the current period. Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment profit or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and measured on the basis of its cost minus accumulative impairment provision; Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period after reassessment.

(3) Transaction fees attribution during the combination

The intermediary and other relevant administrative expenses such as audit, legal and valuation advisory for business combinations are recognised in profit or loss when incurred. Transaction costs of equity or debt securities issued as the considerations of business combination are included in the initial recognition amounts.

29. Consolidated financial statements

The Group's consolidated financial statements refer to the financial statements which reflect the overall financial conditions, operations results and cash flows of the business groups constituted by the parent company and consolidated subsidiaries.

The consolidated scope of the consolidated financial statements is determined by the basis of control.

The consolidated financial statements are based on the financial statements of the Group and its subsidiaries, and are prepared by the Group in accordance with other relevant information. In preparing the consolidation financial statements, the Group and its subsidiaries are required to apply consistent accounting policy and accounting period, intra-group transactions and balances shall be offset.

A subsidiary acquired through a business combination involving entities under common control in the reporting period shall be included in the scope of the consolidation from the beginning of the combination date, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date. Where a subsidiary has been acquired through a business combination involving entities not under common control, the subsidiary's income, expenses and profits are included in the consolidated results of operations, and cash flows are included in the consolidated cash flow statement from the acquisition date to the end of the reporting date.

The portion of a subsidiary's equity that is not attributable to the parent is treated as minority interests and presented in the consolidated balance sheet within shareholders' equity. The portion of a subsidiary's profit or loss that is attributable to the minority interests presented in the consolidated statement of comprehensive income as "minority interests". The portion of a subsidiary's losses that exceeds to the beginning minority interests in the shareholders' equity, the remaining balance still reduces the minority interests.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

Transactions that acquire the minority interests of subsidiaries or dispose part of equity investment but not lose control of this subsidiary are accounted for equity transactions that adjust shareholders' equity attributable to the parent and minority interests to reflect the changes of equity in subsidiaries. The difference between the adjustment of minority interests and the fair value of consideration paid/received shall be adjusted to capital reserve, if the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

When an enterprise loses control over investee because of disposing part of equity investment or other reasons, the remaining part of the equity investment should be re-measured at fair value at the date when losing control over the investee; the cash received in disposal of the equity investment and the fair value of remaining part of the equity investment, deducting net assets proportion calculated by original share percentage since the acquisition date should be recorded in profit or loss for current period of disposal.

Other comprehensive income and changes of investment equity related with acquiree's equity held prior to acquisition date shall be transferred to investment income or loss for current period at acquisition date, besides there is other comprehensive income incurred by the changes of net assets or net liabilities due to the re-measurement of defined benefit plan.

**30. Principal Accounting Estimates and Judgements**

The Group evaluates its estimates and significant judgements on an on-going basis in accordance with the historical experience and other assumptions including the reasonable expectations of future events. The most significant judgements and estimates which are likely to lead to a significant adjustment risk in book value of assets and liabilities during the next fiscal year are listed in the following.

(1) Oil and gas properties and reserves

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

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the unit-of-production method.

(2) Impairment for assets

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

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

(3) Allowances for doubtful accounts

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

(4) Allowance for diminution in value of inventories

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

(5) Overseas taxation

There is uncertainty in the understanding of complex tax rules (including related preferential tax treatments) and the amount and time of taxable income. Management recognizes provisions for possible results of the audit from tax authorities of each country where the group do business. The amount of provision is based on various factors such as previous years' audit experience and the explanations from relevant taxable entities and tax authorities. The recognized tax revenues and expenses may need to be adjusted in the future in accordance with the wide range of the international business relations, long-term and complexity of existing contract agreement, the difference between the actual operating results and assumptions or the changes of those assumptions in the future.

**V. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND PRE-ERROR CORRECTION AND OTHER MATTERS NECESSARY TO ADJUST**

1. Changes in accounting policies

Ministry of Finance has issued "ASBE 39 – Fair value measurement" ( Referred to as the Enterprise Accounting Standard NO.39), "ASBE 40 – Joint arrangements" ( Referred to as the Enterprise Accounting Standard NO.40), "ASBE 41 – Disclosure of interests in other entities" ( Referred to as the Enterprise Accounting Standard NO.41), "ASBE 2 -Long-term equity investments (Revised)" ( Referred to as the Enterprise Accounting Standard NO.2), "ASBE 9 – Employee benefits (Revised)" ( Referred to as the Enterprise Accounting Standard NO.9), "ASBE 30 – Presentation of financial statements" ( Referred to as the Enterprise Accounting Standard NO.30), "ASBE 33 – Consolidated financial statements (Revised)" ( Referred to as the Enterprise Accounting Standard NO.33), "ASBE 37 – Presentation of financial instruments (Revised)" ( Referred to as the Enterprise Accounting Standard NO.37) from the period beginning on 1 January 2014, in addition to Enterprise Accounting Standard NO.39 used in the financial reports in the year 2014 and the subsequent period, other standards above come into force on July 1, 2014.

The group has prepared the financial statements ended January 1,2014 to December 31,2014 in accordance with the standards above, the impact on the group's financial statements (including the reclassification of equity)are as follows:

<b>Changes in the accounting policies and reasons</b>	<b>Affected items</b>	<b>Amount of adjustment/2013</b>	<b>Amount of adjustment/2012</b>
According to the range of long-term equity investments revised by "ASBE 2 -Long-term equity investments (Revised)", the Group reclassifies the equity investment and comparative financial information has been adjusted accordingly.	available-for-sale financial assets	5,141	5,592
	Long-term equity investments	(5,141)	(5,592)
According to the accounting for post-employment benefits revised by "ASBE 9 – Employee benefits (Revised)", the Group adjusted the defined benefit plan on the initial implementation date by the retrospective adjustment method and comparative financial information has been adjusted accordingly.	Long-term employee benefits payable	2,175	2,573
	Employee benefits payables	(1,847)	(2,026)
	Provisions	(327)	(545)
	Long-term	(1)	(2)

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

<b>Changes in the accounting policies and reasons</b>	<b>Affected items</b>	<b>Amount of adjustment/2013</b>	<b>Amount of adjustment/2012</b>
	payables		
	Other comprehensive income	(14,008)	(6,718)
Part of the owner's equity has been reported in accordance with the above accounting standards, and comparative financial information has been adjusted accordingly.	Capital reserve	1,495	(485)
	Currency translation differences	12,513	7,203
Part of the disclosure information of the Group's interests in other entities has been prepared by "ASBE 41 – Disclosure of interests in other entities". Comparative financial information has been adjusted except for the disclosure of the subjects which are not included in the structure of the scope of consolidated financial statements.	No effect	No effect	No effect

2. Changes in accounting estimates

There are no significant changes in accounting estimates necessary to disclose during the reporting period.

3. Corrections of accounting errors in prior periods

There are no significant corrections of accounting errors in prior periods necessary to disclose during the reporting period.

4. Other adjustments to the prior accounting records

Pursuant to the provisions of the Circular of Accounting Settlement for the Reform of Enterprise Housing System (CaiQi [2000] NO. 295) and the Supplementary Circular of Accounting Settlement for the Reform of Enterprise Housing System (CaiQi [2000] No. 878) issued by the Ministry of Finance, PRC, and the Approval to the Issues on Implementing the Reform of Enterprise Housing System for China Petrochemical Corporation issued by the State-owned Assets Supervision and Administration Commission of the State Council, PRC (Guizi allocation [2009] No.1185) and other relevant documents, part of the Group's subsidiaries offsets the beginning account of retained profits in accordance with the disposable housing subsidies occurred in 2013 and prior years. In 2014, part of the Group's subsidiaries offsets the disposable housing subsidies which has been provision but not paid and increased the beginning account of retained profits 179 million.

5. The changes in accounting policies and estimates and pre-error correction and other matters affect the amount of the shareholders' equity at the beginning (not including equity reclassification) are as follows:

<b>Items</b>	<b>At 31 December 2013</b>	<b>Amount of adjustment</b>	<b>At 1 January 2014</b>
Paid in capital	274,867		274,867
Capital reserve	52,720		52,720
Other comprehensive income	(14,008)		(14,008)
Including: Currency translation differences	(12,513)		(12,513)
Specialized reserve	1,685		1,685
Surplus reserve	176,763		176,763
General risk reserve	657		657
Retained profits	213,313	179	213,492
Minority interests	196,854		196,854

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

Items	At 31 December 2013	Amount of adjustment	At 1 January 2014
<b>Total</b>	<b>902,851</b>	<b>179</b>	<b>903,030</b>

**VI. TAXATION**

1. Taxes and tax rates

Taxes	Tax Basis	Tax Rates
Value added tax	Income subject to VAT	17%,13%,11%,6%,3%
Consumption tax	Amount issued from production enterprises	Note(1)
Business tax	Operating revenue	5%,3%
City maintenances & construction tax	Subject to turnover tax	7%,5%,1%
Enterprise income tax	Taxable income	25%,22%,15%
Education surcharges	Subject to turnover tax	3%-5%
Resource tax	Income subject to resource tax	5%
Real estate tax	70%-90% of original value of real estate, Rent income	1.20%、12%
Compensatory fee for mineral resources	Crude oil, natural gas sales	1%
Exploration license fee	Exploration area	100-500 Yuan/km <sup>2</sup> year
Mining license fee	Mining area	1000 Yuan/km <sup>2</sup>
Special oil income levy	Domestic oil sales	Excess progressive tax rate

Note 1: The consumption tax is calculated according to the number of sales of taxable products, the oil rates are as follows:

The name of oil	Since January 1,2009 (RMB Yuan / ton)	Since November 29,2014 (RMB Yuan / ton)	Since December 1,32014 (RMB Yuan / ton)
Gasoline	1,388.00	1,554.56	1,943.20
Diesel oil	940.80	1,105.44	1,293.60
Naphtha	1,385.00	1,551.20	1,939.00
Solvent oil	1,282.00	1,435.84	1,794.80
Lubrication oil	1,126.00	1,261.12	1,576.40
Fuel oil	812.00	954.10	1,116.50
Aviation kerosene	996.80	1,171.24	1,370.60

Note2:

Crude oil prices(US \$/bbl)	Levy rate	Quick deduction(US \$/barrel)
65~70 (contain)	20%	0
70~75 (contain)	25%	0.25
75~80 (contain)	30%	0.75
80~85 (contain)	35%	1.5
85 over	40%	2.5

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

2. Tax incentives and approval

(1) VAT

According to the Circular on Continuing the Implementation of Preferential Policies of Value-added Tax, Housing Property Tax, and Tax on Using Urban Land for Heat-supply Enterprises (Cai Shui [2011] No.118) issued by the Ministry of finance, and the State Administration of Taxation, from 2011 to December 31, 2015, the heating fee income (including heating fee income directly collected from residents by heating enterprises or through other units or paid by residents' company) collected from individual residents (hereinafter referred to as the residents) by heating enterprises of North China shall be exempted from VAT.

According to Implementing Rules for the Interim Regulations of the People's Republic of China on Value-added Tax, Sinopec Publishing Company Limited carries on preferential policy of VAT tax-levy-rebate policy on science and technology books.

According to the "Notification of the extension of propaganda and cultural VAT and business tax incentives issued by Ministry of finance, and the State Administration of Taxation" (Cai shui [2013] No.87), Sinopec Publishing Company and China Economics Publishing House shall enjoy the preferential policies of VAT rebates 50% in the publication publishing process.

According to the "Opinions of deepening the reform of the central ministries and units press" (Zhong Ban Fa [2009] No.16) and "Notification of supporting the development of a number of tax policy notice by cultural enterprises" (Cai Shui [2014] No.85), Sinopec Publishing Company, which have been restructured into enterprises, shall enjoy the policies of VAT exempted since January 1, 2014 to December 31, 2008.

According to the "Hu Shui Pu Huo Zeng [2012] No. 145" issued by Pudong New Area sub-bureau of State Administration of Taxation, China Petrochemical Consulting Corporation are exempted from VAT levied on the contract energy management projects.

According to "Notification of VAT issues related to nitro compound issued by Ministry of finance, and the State Administration of Taxation"(Guo Shui Gong Gao[2012]No.52),Sinopec group Nanjing Chemical Industry Co.,Ltd shall enjoy the preferential policies of VAT exempted when the fertilizer and other agricultural production materials were produced and sold.

According to "Notification of carrying out the tax policy of business tax levy VAT in transportation industry and part of modern service industry" (Cai Shui [2013] No.37), the Group's income which obtained by technology transfer, technology development business and related technical consulting, technology services is exempt from VAT.

(2) Consumption tax

According to the Circular on Exempting Consumption Tax on Oil Products by Product Oil Manufacturing Enterprises for Their Own Use (Cai Shui [2010] No. 98) issued the Ministry of finance, and the State Administration of Taxation, since January 1, 2009, the self-produced refined oil consumed and used as fuel, power and raw materials exempted from consumption tax.

According to the Circular on Levy-Rebate of Consumption Tax on Self-use Product Oil of Oil (Gas) Field Enterprises (Cai Shui [2011] No.7) issued the Ministry of finance, and the State Administration of Taxation, since January 1, 2009, the domestically purchased refined oil consumed during the crude oil exploitation process of oil (gas) field enterprises, was temporarily rebated all the consumption tax based on the amount actually paid.

(3) Resource tax

The production of heating crude oil, heavy oil, tertiary oil recovery, "three lows" oil and gas fields, deep-water oil and gas fields is tax exempted or tax relief of 20% -40%.

(4) Corporate income tax

Part of the group's affiliated enterprises which identified as high-tech enterprises by government adopts 15% income tax rate.

According to twenty-third article of No.19 in the first class of "National Development and Reform Commission Order No.9 [2011] which is about the guide catalog of the adjustment of industrial structure (2011 version)", Sinopec southwest petroleum engineering company, Shanxi Green, Sichuan Star gas limited liability Company, Jinling petrochemical (Chengdu) Co., Ltd shall enjoy the incentives for western development of enterprise income tax relief 15% pay.

According to No.30 provisions which is about the development costs of development of new technologies, new products, new technology research in "Enterprise Income Tax Law", the development expenses are allow to deduct in calculating the corporate income tax in accordance with the actual amount to 50% besides the implementation of a

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

100% deduction. The enterprises which apply the policy include the financial company, the subsidiaries of southwest Petroleum Bureau. According to the enterprise income tax law regulations, financial companies shall enjoy a tax exemption policy of “Dividends, bonuses and other equity investment income between eligible residents”.

According to the Circular of Ministry of Finance and the State Administration of Taxation on Enterprise income tax collection for institutions and social groups and related issues (Cai Shui Zi [1997] No. 075), the administrative fees of the institutions of the Group shall be exempted from enterprise income tax.

(5) Property tax, urban land use tax

According to the Circular on Continuing the Implementation of Preferential Policies of Value-added Tax, Housing Property Tax, and Tax on Using Urban Land for Heat-supply Enterprises (Cai Shui [2011] No.118) issued by the Ministry of finance, and the State Administration of Taxation, from 2011 to December 31, 2015, the plant and land used for residential heating of heating enterprises of North China which charge heating costs to the residents of heating shall be exempted from property tax, urban land use tax. The heating enterprises which provide heating to the residents and enterprises or run other production and business activities shall be exempted from property tax, urban land use tax in accordance with the heating fee revenues received of providing heating to the residents accounted for the proportion of the total income of the heating enterprises.

3. Overseas corporate taxes, rates and preferential policy

Overseas enterprise enjoys the preferential policies according to the relevant legal provisions in country or regions.

**VII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS**

The Group's main subsidiaries are limited companies operating in China and included in the consolidated scope in 2014. The detailed information of the subsidiaries that have significant impact on the results, assets and liabilities of the Group are as follows:

Subsidiaries name	Share holding%	Voting rights%	Registered Capital RMB million	Investment amount RMB million	Main business
Sinopec Corp. *1	72.71	72.94	118,280	105,872	Production and sale of petroleum and petrochemical products
Sinopec Assets Management Co., Ltd.	100	100	30,000	64,894	State-owned Assets Management, cultural and educational health, community services
Sinopec Oilfield Equipment Corporation	100	100	308	1,071	Petroleum machinery equipment and production and sales of oil and gas pipelines
Shengli Petroleum Administration Bureau	100	100	11,376	28,619	Mine (community) security, water and electricity supply business
Zhongyuan Petroleum Exploration Bureau	100	100	4,206	5,970	Mine (community) security and public welfare business
Henan Petroleum Exploration Bureau	100	100	1,625	3,807	Mine (community) security, water and electricity supply business
Jiangnan Petroleum Administration Bureau	100	100	2,213	5,343	Mine (community) security, water and electricity supply business
Kingdream Public Limited Company	67.5	67.5	400	828	Drill and drill for oil

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

Subsidiaries name	Share holding%	Voting rights%	Registered Capital RMB million	Investment amount RMB million	Main business
Jiangsu Petroleum Exploration Bureau	100	100	1,531	2,805	Mine (community) security, water and electricity supply business
China Star Petroleum Co. Ltd.	100	100	1,354	2,394	Engineering construction and technical services
Northwest China Petroleum Bureau	100	100	286	987	Community and asset management business
North China Petroleum Bureau	100	100	343	-80	Mine (community) security and public welfare business
East China Petroleum Bureau	100	100	183	729	Mine (community) security, Oil gas field engineering services and mineral development
Southwest China Petroleum Bureau	100	100	2,018	2,634	Mine (community) security and gas sales
Northeast China Petroleum Bureau	100	100	50	216	Oilfield Services Engineering and Property Management
Sinopec Oilfield Service Corporation *2	72.01	72.01	12,809	24,075	Exploration drilling, logging and other petroleum engineering services
Sinopec Finance Co., Ltd. *3	86.63	100	10,000	5,110	Deposits and loans within the group, discounted bills and other financial services
Petroleum Commercial Reserves Co. Ltd.	100	100	38,683	38,683	Reserves of crude oil and wholesale
International Petroleum Exploration and Development Co., Ltd.	100	100	124,406	124,461	Oil and gas exploration and development
Sinopec Century Bright Capital Investment Ltd	100	100	10,007	11,082	Investment and financing business
Sinopec Engineering (Group) Co., Ltd	67.01	67.01	4,428	6,126	Engineering design, general contracting, construction and installation business

\*1. Explanation on the change of shares proportion and the difference between nominal ownership and actual ownership to Sinopec Corp:

The change of shares proportion:

Sinopec Corp. cumulatively increased capital shares of 1,715,081,853 shares through exercise of convertible bonds during the period of 2014, and as of December 31, Sinopec Corp.'s capital shares turned to 118,280,395,640 shares. Sinopec Group increased 57,722,243 shares of Sinopec Corp. through the secondary market in the Shanghai Stock Exchange in 2014. Consequently, Sinopec Group owns 86,000,577,915 shares of Sinopec Corp. as of December 31, 2014, including 85,447,427,915 A -shares directly and 553,150,000 H-shares indirectly through its wholly-owned subsidiary, Sinopec Century Bright Capital Investment Limited and therefore the Group's interest changed into 72.71%.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

The difference between nominal ownership and actual ownership:

The Group's shares proportion to Sinopec Corp is 72.94% disclosed in the Sinopec Corp.'s financial report of 2014, and different from the actual ownership. The reasons for the difference are as follows:

According to Henan province agreement on 10% equity shares in Luoyang refinery (Zhong Guo Shi Hua [2000] Qi Zi No. 298), 10% equity share of the listed Luoyang refinery owned by Henan Natural Gas Development Corporation of RMB 110 million has been converted to 77.07 million shares of Sinopec Corp according to the same conversion price of the Group, accounting for 0.0860% of Sinopec Corp's shares.

According to the Anqing Petrochemical Acrylic limited assets equity disposal agreement (Zhong Guo Shi Hua [2000] Qi Zi No.402), Anhui Investment Group hold equity of RMB 190 million of Anqing Petrochemical Acrylic limited, converting to 133.12 million shares of Sinopec Corp according to the same conversion price of the Group, accounting for 0.15% of Sinopec Corp's shares.

\*2 .Explanation on the restructuring of SOSC and Yizheng Chemical Fibre Company

Sinopec Oilfield Service Corporation (hereinafter referred to as "SSC") is a second-level subsidiary of the Group established through the restructuring from the Group's subsidiary, Sinopec Oilfield Service Corporation (hereinafter referred to as "SOSC") and Sinopec Corp's subsidiary, Sinopec Yizheng Chemical Fibre Company Limited. After the restructuring, SOSC turned to be a wholly-owned subsidiary of SSC.

\*3. Explanation on the difference between ownership and voting rights held by Sinopec Finance Co., Ltd.:

The parent company of the Group held equity ratio of 51% of Sinopec Finance Co., Ltd., Sinopec Corp held 49% equity ratio. The actual equity ratio of Sinopec Corp by the Group is 72.71%, hence, the Group has indirect 35.63% equity ratio of Sinopec Finance Co., Ltd., and total equity ratio held is 86.63%.

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

VIII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

Item	At 31 December 2014		At 31 December 2013		At 31 December 2012	
	Original Currency million	Translated into RMB million	Original Currency million	Translated into RMB million	Original Currency Million	Translated into RMB million
Cash		86		96		72
Incl.: RMB		18		48		21
USD	4	20	3	16	2	12
Cash in bank		32,814		51,319		39,824
Incl.: RMB		23,344		34,636		24,584
USD	1,220	7,481	2,140	13,045	2,041	12,795
HKD	115	91	1,103	867	97	79
JPY	346	18	492	28	177	13
EUR	39	294	52	440	44	367
GRP	1	9	3	26	3	29
Other monetary fund		2,380		1,714		2,755
<b>Subtotal</b>		<b>35,280</b>		<b>53,129</b>		<b>42,651</b>
less: Impairment provision		61		132		78
<b>Total</b>		<b>35,219</b>		<b>52,997</b>		<b>42,573</b>

2. Bills receivable

Categories	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Bank acceptance bills	15,970	31,071	22,517
Trade acceptance bills	605	214	167
<b>Total</b>	<b>16,575</b>	<b>31,285</b>	<b>22,684</b>

Note: As at December 31, 2014, the Group has no pledged major notes receivable and discounted trade acceptance bills.

3. Accounts receivable

(1) Category analysis

Categories	At 31 December 2014				At 31 December 2013				At 31 December 2012			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount		Amount		Amount		Amount		Amount		Amount	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	million		million	million		million		million	million		million	
Specific identification	13,555	14.83	169	1.25	10,118	12.83	156	1.54	30,284	29.19	305	1.01
Aging analysis	77,849	85.17	2,568	3.3	68,754	87.17	2,037	2.96	73,462	70.81	1,516	2.06
<b>Total</b>	<b>91,404</b>	<b>100</b>	<b>2,737</b>	<b>-</b>	<b>78,872</b>	<b>100</b>	<b>2,193</b>	<b>-</b>	<b>103,746</b>	<b>100</b>	<b>1,821</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

(2) Aging analysis on accounts receivable is as follows

Aging	At 31 December 2014			At 31 December 2013			At 31 December 2012		
	Amount RMB million	%	Provision RMB million	Amount RMB million	%	Provision RMB million	Amount RMB million	%	Provision RMB million
Within 1 year	73,623	94.57	-	65,128	94.73	-	71,164	96.87	-
Between 1-2 years	1,658	2.13	498	1,949	2.83	585	973	1.32	292
Between 2-3 years	1,245	1.60	747	562	0.82	337	250	0.34	150
Over 3 years	1,323	1.70	1,323	1,115	1.62	1,115	1,075	1.47	1,074
<b>Total</b>	<b>77,849</b>	<b>100</b>	<b>2,568</b>	<b>68,754</b>	<b>100</b>	<b>2,037</b>	<b>73,462</b>	<b>100</b>	<b>1,516</b>

(3) As at December 31, 2014, the accounts receivable with evidence for the analysis, of which bad debts was provided using specific identification method, totalled RMB169 million.

(4) Accounts receivable which was written off actually at the year ended 31 December 2014

The accounts receivable which was formed actual loss was written off RMB 77 million, including no single significant amount of that.

4. Prepayments

Aging	At 31 December 2014		At 31 December 2013		At 31 December 2012	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	11,517	92.69	11,243	95.27	12,140	94.77
Between 1-2 years	501	4.03	427	3.62	541	4.22
Between 2-3 years	282	2.27	61	0.51	78	0.61
Over 3 years	126	1.01	70	0.60	51	0.40
<b>subtotal</b>	<b>12,426</b>	<b>100</b>	<b>11,801</b>	<b>100</b>	<b>12,810</b>	<b>100</b>
less: Provision for bad debts	284	-	186	-	193	-
<b>Total</b>	<b>12,142</b>	<b>-</b>	<b>11,615</b>	<b>-</b>	<b>12,617</b>	<b>-</b>

Note: As at December 31, 2014, there was no significant advances to suppliers with aging over 1 year need to be disclosed.

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

5. Other receivables

(1) Category analysis

Categories	At 31 December 2014				At 31 December 2013				At 31 December 2012			
	Book balance		Provision for bad debts		Book balance		Provision for bad debts		Book balance		Provision for bad debts	
	Amount		Amount		Amount		Amount		Amount		Amount	
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%	RMB	%
	million		million		million		million		million		million	
Specific identification.	7,589	18.15	539	7.11	6,982	26.95	783	11.21	4,000	35.77	1,038	25.95
Aging analysis	34,221	81.85	2,899	8.47	18,921	73.05	2,841	15.01	7,183	64.23	2,774	38.62
<b>Total</b>	<b>41,810</b>	<b>100</b>	<b>3,438</b>	<b>-</b>	<b>25,903</b>	<b>100</b>	<b>3,624</b>	<b>-</b>	<b>11,183</b>	<b>100</b>	<b>3,812</b>	<b>-</b>

(2) Aging analysis of other receivables is as follows

Aging	At 31 December 2014			At 31 December 2013			At 31 December 2012		
	Amount		Provision for bad debts	Amount		Provision for bad debts	Amount		Provision for bad debts
	RMB	%	RMB	RMB	%	RMB	RMB	%	RMB
	million		million	million		million	million		million
Within 1 year	31,174	91.10	-	15,861	83.82	-	4,259	59.29	-
Between 1-2 years	144	0.42	43	234	1.24	70	151	2.11	47
Between 2-3 years	117	0.34	70	138	0.73	83	113	1.57	67
Over 3 years	2,786	8.14	2,786	2,688	14.21	2,688	2,660	37.03	2,660
<b>Total</b>	<b>34,221</b>	<b>100</b>	<b>2,899</b>	<b>18,921</b>	<b>100</b>	<b>2,841</b>	<b>7,183</b>	<b>100</b>	<b>2,774</b>

(3) As at December 31, 2014, the other receivables with evidence for the analysis, of which bad debts was provided using specific identification method, totalled RMB 539 million.

(4) Other receivables which was written off actually at the year ended 31 December 2014

The other receivables which was formed actual loss was written off RMB 210 million, including no single significant amount of that.

6. Inventories

Categories	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
Raw material	66,399	69,750	66,597
Goods in process	27,193	26,623	25,541
Finished goods	131,239	115,409	113,434
Turnover materials	297	175	167
Materials in transit	35,120	63,207	58,453
Inventories arising from construction contract of construction enterprise	17,850	17,643	11,223
Labor cost	481	520	6,145
Other	400	273	111
<b>Total</b>	<b>278,979</b>	<b>293,600</b>	<b>281,671</b>
Less: provisions for diminution in value of inventories	3,798	1,937	606
Book value	<b>275,181</b>	<b>291,663</b>	<b>281,065</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

7. Non-current assets due with-in one year

<b>Item</b>	<b>At 31 December</b>	<b>At 31 December</b>	<b>At 31 December</b>
Bond investments	20	71	-
Long - term prepaid expenses due within 1 year	2,185	2,259	2,138
Discounted assets of financial companies	5,857	5,055	7,073
Other non-current assets maturing within one year	289	70	245
<b>Total</b>	<b>8,351</b>	<b>7,455</b>	<b>9,456</b>

8. Other current assets

<b>Item</b>	<b>At 31 December</b>	<b>At 31 December</b>	<b>At 31 December</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Credit linked notes deposits	-	-	3,142
Entrusted with financial management of financial companies	-	-	528
Dividend receivables	800	-	-
Interests receivable	132	208	320
Recoverable value-added tax	23,132	20,328	-
<b>Total</b>	<b>24,064</b>	<b>20,536</b>	<b>3,990</b>

9. Available-for-sale financial assets

<b>Item</b>	<b>At 31 December</b>	<b>At 31 December</b>	<b>At 31 December</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Available-for-sale bonds	2,081	-	30
Available-for-sale equity instruments	6,098	12,714	10,708
Others	542	1,233	530
<b>Total</b>	<b>8,721</b>	<b>13,947</b>	<b>11,268</b>
Less: provisions of impairment on Available-for-sale financial assets	1,019	829	-
<b>Book value</b>	<b>7,702</b>	<b>13,118</b>	<b>11,268</b>

Note: Provisions of impairment on Available-for-sale financial assets are mainly recognized by Sinopec Century Bright Capital Investment Ltd. for the stock of Sunshine Oilsands Ltd., because the stock value has been sustained and serious declined, and it has no sign of improvement in a short time.

10. Long-term receivables

<b>Item</b>	<b>At 31 December</b>	<b>At 31 December</b>	<b>At 31 December</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>RMB million</b>	<b>RMB million</b>	<b>RMB million</b>
Offshore development project loans	25,541	31,788	26,012
Others	9,855	237	248
<b>subtotal</b>	<b>35,396</b>	<b>32,025</b>	<b>26,260</b>
Less: provision for bad debts	1,248	1,244	2,844
<b>Total</b>	<b>34,148</b>	<b>30,781</b>	<b>23,416</b>

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

11. Long term equity investments

Item	Balance at 1 January,2013 RMB million	Current year increase RMB million	Current year decrease RMB million	Balance at 31 December,2013 RMB million
Investment in subsidiaries	1,016	3	922	97
Investment in joint ventures	31,684	19,945	394	51,235
Investment in associates	151,654	33,686	25,452	159,888
Investment in others				
<b>subtotal</b>	<b>184,354</b>	<b>53,634</b>	<b>26,768</b>	<b>211,220</b>
Less: long-term investments impairment provision	499	2	332	169
<b>Total</b>	<b>183,855</b>	<b>53,632</b>	<b>26,436</b>	<b>211,051</b>

Item	Balance at 1 January,2014 RMB million	Current year increase RMB million	Current year decrease RMB million	Balance at 31 December,2014 RMB million
Investment in subsidiaries	97	141	129	109
Investment in joint ventures	51,235	14,129	21,616	43,748
Investment in associates	159,888	30,690	14,832	175,746
Investment in others <sup>21</sup>				
<b>subtotal</b>	<b>211,220</b>	<b>44,960</b>	<b>36,577</b>	<b>219,603</b>
Less: long-term investments impairment provision	169	5	74	100
<b>Total</b>	<b>211,051</b>	<b>44,955</b>	<b>36,503</b>	<b>219,503</b>

(1) Investment in subsidiaries

Sinopec Group's principal subsidiaries are included in the scope of consolidation. Subsidiaries that are not included in the scope of consolidation are in the process of bankruptcy liquidation or clean-up and rectification.

(2) Investment in significant joint ventures

2014

Investees	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
Caspian Investment Resources Limited	50	50	16,776	8,366	(245)
BASF-YPC Company Limited	50	50	14,629	22,191	279
Pacific Petrochemical Financial Leasing Co.,Ltd.	50	50	5,007	68	7
Mansarovar Energy Colombia Limited	50	50	6,088	3,781	(256)
Taihu Limited	50	50	2,948	18,183	2,205

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

2013

<b>Investees</b>	<b>Share holding%</b>	<b>Voting rights%</b>	<b>Total net assets RMB million</b>	<b>Total operation revenues RMB million</b>	<b>Net profit RMB million</b>
Caspian Investment Resources Limited	50	50	17,547	16,916	901
BASF-YPC Company Limited	50	50	15,851	23,176	781
Taihu Limited	50	50	7,387	6,480	2,935
Shanghai Secco Petrochemical Company Limited	50	50	7,770	29,370	201
Mansarovar Energy Colombia Limited	50	50	5,299	4,412	1,068

2012

<b>Investees</b>	<b>Share holding%</b>	<b>Voting rights%</b>	<b>Total net assets RMB million</b>	<b>Total operation revenues RMB million</b>	<b>Net profit RMB million</b>
Fujian Refining and Petrochemical Company Limited	50	50	44,863	69,237	(2,216)
Shanghai Secco Petrochemical Company Limited	50	50	14,291	27,158	(349)
BASF-YPC Company Limited	50	50	25,480	22,938	707
SINOPEC SABIC Tianjin Petrochemical Company Limited	50	50	22,745	23,756	(723)
Caspian Investment Resources Ltd.	50	50	23,624	12,359	1,055

(3) Investment in significant associates

2014

<b>Investees</b>	<b>Share holding%</b>	<b>Voting rights%</b>	<b>Total net assets RMB million</b>	<b>Total operation revenues RMB million</b>	<b>Net profit RMB million</b>
REPSOL	40	40	49,822	5,535	371
APLNG Australia Pty Ltd	25	25	83,422	2,159	781
Galp service	30	30	5,527	4,111	957
Apache Egypt Partnership	33.33	33.33	40,219	16,678	6,406
Talisman	49	49	(3,301)	7,324	(11,481)

2013

<b>Investees</b>	<b>Share holding%</b>	<b>Voting rights%</b>	<b>Total net assets RMB million</b>	<b>Total operation revenues RMB million</b>	<b>Net profit RMB million</b>
REPSOL	40	40	50,070	3,071	(1,384)
APLNG Australia Pty Ltd	25	25	89,945	2,339	(141)
Galp service	30	30	27,506		432
Apache Egypt Partnership	33.33	33.33	36,223	1,772	499
Talisman	49	49	5,486	4,308	(235)

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

2012

Investees	Share holding%	Voting rights%	Total net assets RMB million	Total operation revenues RMB million	Net profit RMB million
China Aviation Oil Supply Company Limited	29	29	18,607	102,467	1,790
Portugal Galp Energy Brazil	30	30	6,640	1,723	1,081
Talisman	49	49	41,327		(99)
Pudong International Airport APLNG.	25	25	132,033	2,330	588
REPSOL	40	40	56,384	1,662	(2)

12. Fixed assets

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
<b>1. Cost</b>	<b>1,155,580</b>	<b>1,092,447</b>	<b>990,286</b>
Incl. : Land assets	8,705	8,695	8,727
Plant & buildings	158,729	153,020	140,143
Temporary facilities	687	486	408
General equipment	105,296	100,780	94,562
Special equipment for oil and gas	172,249	160,071	142,745
Special equipment for petroleum and chemical industry	689,122	651,471	579,895
Others	20,792	17,924	23,806
<b>2. Accumulated depreciation</b>	<b>535,087</b>	<b>498,464</b>	<b>457,001</b>
Incl. : Plant & buildings	60,221	56,296	52,297
Temporary facilities	419	307	257
General equipment	60,767	56,973	52,221
Special equipment for oil and gas	78,130	68,986	60,609
Special equipment for petroleum and chemical industry	325,146	306,296	280,818
Others	10,404	9,606	10,799
<b>3. Impairment provision</b>	<b>24,373</b>	<b>24,553</b>	<b>24,711</b>
Incl. : Land assets	29	29	29
Plant & buildings	4,719	4,825	4,396
General equipment	1,299	1,369	1,403
Special equipment for oil and gas	1,008	1,021	1,058
Special equipment for petroleum and chemical industry	17,036	16,998	17,504
Others	282	311	321
<b>4. Book value</b>	<b>596,120</b>	<b>569,430</b>	<b>508,574</b>
Incl. : Land assets	8,676	8,666	8,698
Plant & buildings	93,789	91,899	83,450
Temporary facilities	268	179	151
General equipment	43,230	42,438	40,938
Special equipment for oil and gas	93,111	90,064	81,078
Special equipment for petroleum and chemical industry	346,940	328,177	281,573
Others	10,106	8,007	12,686

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

A. During the year ended 31 December 2014, 2013 and 2012, amongst the accumulative depreciation, the depreciation expense totalled RMB 56,568 million, RMB 52,229 million and RMB 48,161 million respectively.

B. During the year ended 31 December 2014, 2013 and 2012, the fixed asset increase transferred from construction in progress totalled RMB 76,345 million, RMB 110,022 million and RMB 56,997 million respectively.

13. Oil and gas assets

Item	At 31 December 2014 <u>RMB million</u>	At 31 December 2013 <u>RMB million</u>	At 31 December 2012 <u>RMB million</u>
<b>1. Cost</b>	<b>892,126</b>	<b>789,640</b>	<b>701,748</b>
Incl. : Mineral interests	90,118	84,726	82,633
Unproved Mineral interests	48,830	45,328	40,185
Wells and related facilities	753,178	659,586	578,930
<b>2. Cumulative depletion</b>	<b>418,938</b>	<b>356,821</b>	<b>311,121</b>
Incl. : Mineral interests	19,405	14,788	10,533
Wells and related facilities	399,533	342,033	300,588
<b>3. Impairment provision</b>	<b>22,557</b>	<b>18,308</b>	<b>15,936</b>
Incl. : Mineral interests	2,342	2,218	2,286
Unproved Mineral interests	1,682		
Wells and related facilities	18,533	16,090	13,650
<b>4. Book value</b>	<b>450,631</b>	<b>414,511</b>	<b>374,691</b>
Incl. : Mineral interests	68,371	67,720	69,814
Unproved Mineral interests	47,148	45,328	40,185
Wells and related facilities	335,112	301,463	264,692

Note: The amount of depletion totalled RMB 62,607 million.

In current year, the acquisition of increased oil and gas assets totalled RMB 31,313 million and Completion of construction of oil and gas assets totalled RMB 65,517 million.

During the year ended 31 December 2014, the Group provided oil and gas assets impairment totalled RMB 4,238million:

A: Sinopec Corp. provided oil and gas assets impairment totalled RMB 2,346 million for the reason that some oilfields' failed drilling and the excessive production and development cost made the recoverable amount of the assets below the book value. The recoverable amount is assessed according to the present value of the assets' expected future cash flow, the pre-tax discount rate is 10.13%.

B: SIPC provided oil and gas assets impairment totalled RMB 1,802 million (Mineral interests RMB 117 million and unproved mineral interests RMB 1,686 million). For the reason that SIPC Australia has not found economic recoverable reserves of the Puffin District by the exploration and evaluation activities, it plans to stop the active and effective exploration and evaluation activities and provide oil and gas assets impairment RMB 1,798 million (Mineral interests RMB 116 million and unproved mineral interests RMB 1,682 million).

In the fourth quarter of 2014, the international oil prices felled greatly. SIPC believes that the current oil prices' fell is impermanent caused by the short-term political reasons, not sustaining and long-term fell caused by long-term supply and demand. SIPC believes that except above-mentioned impairment, there is no other significant oil and gas assets impairment.

14. Construction in progress

- (1) Breakdown of construction in progress

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

Project name	At 31	At 31	At 31
	December	December	December
	2014	2013	2012
	RMB million	RMB million	RMB million
Infrastructure projects spending	111,356	103,482	120,949
Technological transformation project	22,148	23,062	22,398
Geological exploration expenditures	33,607	32,483	30,900
Disbursements for oil and gas development	60,152	56,187	45,086
Others	7,094	5,818	3,969
<b>Total</b>	<b>234,357</b>	<b>221,032</b>	<b>223,302</b>
Less: Provision for impairment of construction in progress	433	433	934
<b>Book value</b>	<b>233,924</b>	<b>220,599</b>	<b>222,368</b>

Note: At 31 December 2014, 2013 and 2012, the amount of the construction in progress was RMB 233,924 million, 220,599 million and 222,368 million respectively.

(2) Significant items

Item	Balance at 1 January 2014			Current year increase		Current year decrease	
	Book balance RMB million	Incl: capitalized interest RMB million	Impairment	Book balance RMB million	Incl: capitalized interest RMB million	Incl: converting to fixed asset (oil and gas) RMB million	Other decrease RMB million
<b>Total</b>	<b>221,032</b>	<b>3,900</b>	<b>433</b>	<b>205,818</b>	<b>1,994</b>	<b>141,862</b>	<b>50,631</b>
Incl: 1. Guangxi Liquefied Natural Gas (LNG) Project	2,140	19	-	2,228	111	4	-
2.Oil quality upgrade project	987	16	-	2,972	55	-	-
3.Cooperative development project of East China Sea and Westlake	1,349	-	-	3,404	-	-	1,231
4.Zhongke Refining and Petrochemical Integrated Project	2,221	-	-	521	-	-	-
5 Oil and gas exploitation in Yuanba, Sichuan Province, Southwest China( Phase I)	1,824	281	-	901	63	-	-
6. Public engineering project of Ningxia energy and chemical company	-	-	-	2,286	-	-	-
7. Shandong Liquefied Natural Gas (LNG) Project	3,580	8	-	3,461	84	5,147	181
8.Tianjin Liquefied Natural Gas(LNG) Project	653	-	-	565	-	-	-
9.Oil quality upgraded and crude oil poor quality improvement project	4,522	205	-	1,085	90	5,561	-
10.Oil quality upgraded and crude oil poor quality improvement	5,550	130	-	1,396	210	6,933	-

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Significant items (Continued)

Item	Balance at 31 December 2014			Budget RMB million	%	Capital source
	Book balance RMB million	Incl: capitalized interest RMB million	Impairment			
<b>Total</b>	<b>234,357</b>	<b>5,069</b>	433	-		
Incl: 1. Guangxi Liquefied Natural Gas (LNG) Project	4,364	130	-	17,775	24.61	Bank loans & self-financing
2.Oil quality upgrade project	3,959	71	-	6,679	59.31	Bank loans & self-financing
3.Cooperative development project of East China Sea and Westlake	3,522	-	-	9,295	92.16	Self-financing
4.Zhongke Refining and Petrochemical Integrated Project	2,742	-	-	45,516	6.03	Self-financing
5 Oil and gas exploitation in Yuanba, Sichuan Province, Southwest China( Phase I)	2,725	343	-	7,200	37.85	Bank loans & self-financing
6. Public engineering project of Ningxia energy and chemical company	2,286	-	-	3,811	59.99	Self-financing
7. Shandong Liquefied Natural Gas (LNG) Project	1,713	92	-	10,716	66.20	Bank loans & self-financing
8.Tianjin Liquefied Natural Gas(LNG) Project	1,218	-	-	17,404	7.01	Self-financing
9.Oil quality upgraded and crude oil poor quality improvement project	46	-	-	6,776	88.19	Bank loans & self-financing
10.Oil quality upgraded and crude oil poor quality improvement	13	-	-	8,318	89.50	Bank loans & self-financing

15.Intangible assets

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
<b>1.Cost</b>	<b>138,589</b>	<b>111,868</b>	<b>96,860</b>
inc: patent right	4,600	4,352	4,241
Land use right	93,469	84,780	74,793
Computer software	762	694	591
Others	39,758	22,042	17,235
<b>2.Accumulated amortization</b>	<b>33,594</b>	<b>25,062</b>	<b>21,370</b>
inc: patent right	3,198	3,009	2,791

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Land use right	19,458	16,228	14,197
Computer software	561	474	384
Others	10,377	5,351	3,998
<b>3.Impairment provision</b>	<b>1,006</b>	<b>751</b>	<b>753</b>
inc: patent right	499	320	320
Land use right	346	344	346
Computer software	1		
Others	160	87	87
<b>4.Book value</b>	<b>103,989</b>	<b>86,055</b>	<b>74,737</b>
inc: patent right	903	1,023	1,130
Land use right	73,665	68,208	60,250
Computer software	200	220	207
Others	29,221	16,604	13,150

16. Goodwill

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Book balance	46,218	46,360	47,323
Less: goodwill impairment provision	9,013	9,012	9,025
<b>Book value</b>	<b>37,205</b>	<b>37,348</b>	<b>38,298</b>

(1) The recognition of the main goodwill items:

The International Petroleum Exploration and Development Co., Ltd., acquired the 100% shares of Amodaimi in 2012, and hold 20% equity of Block16 and Tivacumo Area Petroleum Consortium through its Ecuador branch. The Company recognised the goodwill of 267 million in 2013 as the Purchase Price Allocation of Amodaimi completed in 2013, which was ongoing in 2012.

(2) The main provision for impairment of goodwill

Name of investee or goodwill items	Amount RMB million
Sinopec Qilu Branch (“Sinopec Qilu”)	2,161
Sinopec Shengli Oil Field Dynamic Company Limited (“Dynamic”)	1,361
Sinopec Zhongyuan Petroleum Company Limited (“Zhongyuan Petroleum”)	1,391
Sinopec Yangzi Petrochemical Company Limited (“Sinopec Yangzi”)	2,744
Puffin FPSO Limited	433

The impairment of goodwill decreased this year due to the changes in exchange rate.

The expected result of goodwill’s recoverable amount doesn’t lead to the impairment, the recoverable amount is assessed according to the expected future cash flow. Cash flow is calculated according to the financial budget during one year approved by the management and the pre-tax discounted rate from 10.0% to 10.9% (2013: 11.5%-12.7%), and assume that the cash flow will keep stable after one year. But the main assumption for calculate the present value of future cash flow will be changed, management level believe that if the main assumption has negative change, then the book value of these companies will exceed the recoverable amount. The cash flow’s calculation takes the gross profit rate and the sales volume as the key assumption. The gross profit rate is calculated according to the rate which was achieved prior to the budget period in combination with the management’s expectation of the future price trend of the international crude oil and petrochemicals. The sales volume is calculated according to the production capacity and (or) the sales volume prior to the budget period.

17. Long-term deferred expenses

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Item	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
1. Expenses on improvement of operating leased fixed assets	1,323	657	530
2. Site rent	262	111	199
3. Amortization of mobile house	1,116	1,056	378
4. Catalyst	4,726	3,821	3,051
5. Drilling tools	3,163	2,809	2,536
6. Lease	74	97	118
7. Stations and depots rent	6,984	6,542	6,491
8. Others	1,368	1,222	1,630
<b>Total</b>	<b>19,016</b>	<b>16,315</b>	<b>14,933</b>

Note: Other long-term deferred expenses are mainly the initial costs of SIPC's loans and project initial fees of SSC.

18. Deferred tax assets and liabilities

(1) Deferred income tax assets and liabilities recognized

Item	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
<b>Deferred income tax assets</b>			
Receivables and inventory	1,095	5,313	3,160
Fixed assets and oil & gas assets	8,369	8,237	6,769
Accrued item	2,468	2,324	2,034
Deductible loss	3,724	2,556	3,200
Other items	3,283	266	2,737
<b>subtotal</b>	<b>18,939</b>	<b>18,696</b>	<b>17,900</b>
<b>Deferred income tax liabilities</b>			
Fixed assets and oil & gas assets	39,984	38,769	42,671
Available for sale financial assets	344	972	671
Other items	12,335	14,227	9,381
<b>subtotal</b>	<b>52,663</b>	<b>53,968</b>	<b>52,723</b>

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

Item	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
Deferred tax assets	8,651	9,125	8,749
Deferred tax liabilities	8,651	9,125	8,749

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

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Item	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
Deferred tax assets	10,289	9,571	9,151
Deferred tax liabilities	44,013	44,843	43,974

(2) Deferred income tax assets unrecognized

As of December 31, 2014, the deductible temporary differences cannot be expected to generate sufficient taxable income to offset the deductible temporary differences in the prospective period, the deductible temporary difference of the deficit enterprise's unrecognized deferred income tax assets totalled RMB47,935 million, of which the deductible losses in the operation was RMB 28,613 million. These deductible losses will be due respectively in 2015, 2016, 2017, 2018 and 2019, and the amounts are, RMB 905 million, RMB 4,364 million, RMB 6,450 million, RMB 6,821 million and RMB 10,073 million respectively.

19. Provision for Assets impairment

Item	Balance at 1 January 2013 RMB million	Current year increase		Current year decrease			Balance at 31 December 2013 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	8,671	(1,024)	52	-	305	147	7,247
Inventory impairment provisions	606	1,528	79	-	133	143	1,937
Provision for impairment of long term equity investment	499	2	-	-	332	-	169
Provision for impairment of fix asset	24,711	173	649	-	832	148	24,553
Provision for impairment of oil and gas assets	15,936	2,520	4	-	-	152	18,308
Provision for impairment of construction materials	82	365	-	-	-	5	442
Provision for impairment of construction in progress	933	15	-	-	-	515	433
Provision for impairment of intangible assets	754	-	10	-	2	11	751
Provision for impairment of goodwill	9,025	-	-	-	-	13	9,012
Other	237	757	225	-	13	-	1,206
<b>Total</b>	<b>61,454</b>	<b>4,336</b>	<b>1,019</b>	<b>-</b>	<b>1,617</b>	<b>1,134</b>	<b>64,058</b>

Item	Balance at 1 January 2014 RMB million	Current year increase		Current year decrease			Balance at 31 December 2014 RMB million
		Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	
Bad debt provision	7,247	799	63	-	294	106	7,709
Inventory impairment provisions	1,937	3,238	-	-	1,365	12	3,798
Provision for impairment of long term equity investment	169	2	12	-	1	82	100
Provision for impairment of fix asset	24,553	1,041	255	-	1,232	244	24,373
Provision for impairment of oil and gas assets	18,308	4,238	17	-	-	6	22,557
Provision for impairment of construction materials	442	399	-	-	53	-	788

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Item	Balance at 1	Current year increase		Current year decrease			Balance at 31
	January 2014 RMB million	Provision RMB million	Other increase RMB million	Reversed RMB million	Written-off RMB million	Other decrease RMB million	December 2014 RMB million
Provision for impairment of construction in progress	433	10	-	-	10	-	433
Provision for impairment of intangible assets	751	179	98	-	3	19	1,006
Provision for impairment of goodwill	9,012	-	1	-	-	-	9,013
Other	1,206	129	9	-	1	41	1,302
<b>Total</b>	<b>64,058</b>	<b>10,035</b>	<b>455</b>	<b>-</b>	<b>2,959</b>	<b>510</b>	<b>71,079</b>

20. Short-term loans

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Credit loans	160,274	109,907	79,372
Mortgage loans	82	74	111
Guarantee loans	2,334	3,073	1,562
Pledge loan	-	-	10
<b>Total</b>	<b>162,690</b>	<b>113,054</b>	<b>81,055</b>

21. Bills payable

Categories	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Bank acceptance draft	7,026	7,388	9,018
<b>Total</b>	<b>7,026</b>	<b>7,388</b>	<b>9,018</b>

Note: the notes payable shall be due in 2015.

22. Accounts payable

(1) Aging analysis on accounts payable is as follows

Aging	At 31 December 2014		At 31 December 2013		At 31 December 2012	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	232,839	93.49	241,383	95.09	248,240	95.96
Between 1-2 years	10,539	4.23	7,971	3.14	6,369	2.46
Between 2-3 years	3,269	1.31	2,472	0.97	2,601	1.01
Over 3 years	2,408	0.97	2,040	0.80	1,465	0.57
<b>Total</b>	<b>249,055</b>	<b>100</b>	<b>253,866</b>	<b>100</b>	<b>258,675</b>	<b>100</b>

(2) No significant accounts payable of the Group aged over 3 years need to be disclosed.

23. Advances from customers

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Aging	At 31 December 2014		At 31 December 2013		At 31 December 2012	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	100,831	88.91	88,666	88.18	79,635	88.46
Above 1 year	12,574	11.09	11,885	11.82	10,385	11.54
<b>Total</b>	<b>113,405</b>	<b>100</b>	<b>100,551</b>	<b>100</b>	<b>90,020</b>	<b>100</b>

No significant advances from customers of the Group aged over 1 years need to be disclosed.

24. Employee benefits payable

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
<b>Employees benefits payables</b>	<b>3,732</b>	<b>4,752</b>	<b>19,639</b>
1. Wages, bonuses, allowances and subsidies	381	493	12,530
2. Welfare expense	323	305	293
3. Social insurances	738	826	1,171
4. Housing reserve fund	517	638	728
5. Labor union expenditure and employee education expenses	384	327	308
6. Employee education expenses	129	155	257
7. Labor cost	170	200	184
8. Dismiss welfare	528	518	966
9. Housing subsidies	16	310	2,027
10. Other	546	980	1,175
<b>Long-term employees benefits payables</b>	<b>2,807</b>	<b>2,175</b>	<b>2,573</b>
1. post-employment benefit of designed benefit plan	2,806	2,174	2,572
2. termination benefits paid above 1 year	1	1	1
<b>Total</b>	<b>6,539</b>	<b>6,927</b>	<b>22,212</b>

25. Taxes and fees payable

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Value added tax	(2,137)	2,031	(19,560)
Consumption tax	16,747	15,708	16,797
Business tax	536	472	572
Resource tax	906	1,393	1,147
Enterprise income tax	10,703	10,117	11,923
Land value added tax	864	857	830
City maintenance and construction tax	1,460	1,553	1,494
Land use tax	639	453	446
Special petroleum proceeds	3,435	6,746	9,539
Education surcharges	1,424	1,394	1,351
Individual income tax	831	1,134	1,025
Others	3,049	3,296	3,045
<b>Total</b>	<b>38,457</b>	<b>45,154</b>	<b>28,609</b>

26. Other accounts payables

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Aging	At 31 December 2013		At 31 December 2012		At 31 December 2011	
	Amount RMB million	%	Amount RMB million	%	Amount RMB million	%
Within 1 year	86,286	85.54	68,584	81.29	57,082	79.40
Between 1-2 years	6,217	6.16	5,206	6.17	6,941	9.65
Between 2-3 years	1,528	1.51	4,557	5.40	3,283	4.57
Over 3 years	6,855	6.79	6,023	7.14	4,587	6.38
<b>Total</b>	<b>100,886</b>	<b>100</b>	<b>84,370</b>	<b>100</b>	<b>71,893</b>	<b>100</b>

Note : No significant other payables of the Group aged over 3 years needs to be disclosed.

27. Non-current liabilities due within one year

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Long-term loan due within 1 year	86,858	32,909	30,103
(1) Credit loans	86,590	32,714	27,600
(2) mortgage loans	82	5	5
(3) Guarantee loans	186	190	2,498
Bonds payable due within 1 year	11,000	47,072	
Long-term payable due within 1 year			31
Other long-term liability due within 1 year	703	431	346
<b>Total</b>	<b>98,561</b>	<b>80,412</b>	<b>30,480</b>

Note: Other long-term liability due within 1 year is mainly oil and gas assets retirement cost due within 1 year and special accounts payable due within 1 year.

28. Other current liabilities

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Short-term financing bonds issued by the Group	17,981	33,275	35,025
Borrowed capital of the financial company	15,431	5,805	10,000
Bank overdraft of the financial company		-	-
Financial company deposits	3,631	2,350	3,585
Sale of repurchased financial assets by financial company	2,458	3,129	16,902
Other current liabilities	442	367	408
<b>Total</b>	<b>39,943</b>	<b>44,926</b>	<b>65,920</b>

During the year 2013, Sinopec Century Bright Capital Investment Ltd., wholly owned by the Group, issued short-term bonds totally \$13,909 million to investors, the interest rate of that was from 0.25% to 0.70% and has been paid in the period from January 2014 to August 2014, and it was finally guaranteed by the Group. During the year 2014, Sinopec Century Bright Capital Investment Ltd. issued short-term bonds totally \$ 16,756 million to investors, the interest rate of that was from 0.34% to 0.65% and will be paid in the period from January 2015 to June 2015, and finally guaranteed by the Group. By the end of the year 2014, the short-term financing bills totalled \$ 2,939 million, equivalent to RMB 17,981 million.

29. Long-term loans

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

Item	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
Credit loans	168,289	225,760	235,317
Mortgage loans	429	1	1
Guarantee loans	8,037	902	1,166
Pledge loans	1,534		
<b>Total</b>	<b>178,289</b>	<b>226,663</b>	<b>236,484</b>

30. Bonds payable

Item	At 31 December 2014	At 31 December 2013	At 31 December 2012
	RMB million	RMB million	RMB million
Corporate bond	142,093	116,654	78,464
Convertible bond	16,721	21,461	33,522
Convertible bonds with warrants		-	28,327
Financial bond		-	2,995
<b>Total</b>	<b>158,814</b>	<b>138,115</b>	<b>143,308</b>

A. On February 24, 2004, Sinopec Corp. issued ten-year corporate bonds of RMB 3,500 million, with an effective yield of 4.61% and paid annually; on May 10, 2007, Sinopec Corp. issued ten-year corporate bonds of RMB 5,000 million with an effective yield of 4.20% and paid annually; on November 13, 2007, Sinopec Corp. issued corporate bonds of RMB 20,000 million with two combination way, which includes ten-year corporate bond of RMB 11,500 million with a fixed interest rate of 5.68% and five-year bond of RMB 8,500 million with a fixed interest rate of 5.40%; on March 27, 2009, Sinopec Corp. issued three-year corporate bonds of RMB 10 billion with an effective yield of 2.25% and paid annually; on June 26, 2009, Sinopec Corp. issued three-year corporate bonds of RMB 20,000 million with an effective yield of 2.48% and paid annually; on May 21, 2010, Sinopec Corp. issued to the Chinese domestic institutional investors five-year corporate bonds of RMB 11,000 million with an effective yield of 3.75% and paid annually; In 2014, the corporate bond has been reclassified to non-current liabilities due within one year. On May 21, 2010, Sinopec Corp. issued to the Chinese domestic institutional investors ten-year corporate bonds of RMB 9,000 million with an effective yield of 4.05% and paid annually. In 2009, Sinopec Corp. repaid the five-year bond of RMB 8,500 million issued in 2007 and the three-year bond of RMB 30,000 million issued in 2009.

On June 5, 2012, Sinopec Corp. issued corporate bonds of RMB 2,000 million, which includes five-year corporate bond of RMB 1,300 million with a fixed interest rate of 4.26% and ten-year corporate bond of RMB 700 million with a fixed interest rate of 4.90%.

On May 17, 2012, Sinopec Group Overseas Development (2012) Co., Ltd. wholly owned by the Group, issued \$3,000 million corporate bonds with the period of 5 years, 10 years and 30 years for each \$1,000 million. The coupon rate of five-year bond, ten-year bond and thirty-year bond is 2.75%, 3.9% and 4.875% respectively. On August 9, 2012, Sinopec Group Overseas Development (2012) Co., Ltd issued 10-year corporate bonds of \$500 million, with a fixed coupon rate of 3.90%.

On April 24, 2013, Sinopec Corp. issued three-year corporate bonds of \$750 million, five-year corporate bonds of \$1,000 million, ten-year corporate bonds of \$1,250 million, and thirty-year corporate bonds of \$500 million. The coupon rate of three-year bond, five-year bond, ten-year bond and thirty-year bond is 1.25%, 1.875%, 3.125% and 4.25% respectively.

On October 17, 2013, Sinopec Group Overseas Development (2013) Co., Ltd. wholly owned by the Group, issued five-year corporate bonds of \$750 million, ten-year corporate bonds of \$1,500 million, thirty-year corporate bonds of \$500 million and seven-year corporate bonds of €550 million. The coupon rate of five-year bond, ten-year bond, thirty-year bond and seven-year bond is 2.5%, 4.375%, 5.375% and 2.625% respectively.

On April 10, 2014, Sinopec Group Overseas Development (2014) Co., Ltd. wholly owned by the Group, issued senior dollar bonds of \$ 5,000 million which were guaranteed by the Sinopec Group, and they were three-year bond with fixed interest and yield interest, five-year bond with fixed interest and yield interest and ten-year bond with fixed interest separately. Then Sinopec Group Overseas Development (2014) Co., Ltd. issued senior dollar bonds totally \$ 1,000 million on June 9, 2014, and they were three-year bond with fixed interest and yield interest and ten-year bond with fixed

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

interest separately. All that above-mentioned bonds were totally \$ 6,000 million, which includes three-year bond of \$ 1,550 million with a fixed interest 1.750%, five-year bond of \$ 750 million with a fixed interest 2.75%, ten-year bond of \$ 1,400 million with a fixed interest 4.375% and three-year bond of \$ 1,800 million with a yield interest of three-month dollar Libor plus 0.78%, five-year bond of \$ 500 million with a yield interest of three-month dollar Libor plus 0.92%.

B. On 24 April 2007, Sinopec Corp. issued zero coupon convertible bonds due 2014 with an aggregate principal amount of HKD 11.7 billion (the “2007 Convertible Bonds”). The 2007 Convertible Bonds are convertible into shares of Sinopec Corp. from 4 June 2007 onwards at a price of HKD 10.76 per share, subject to adjustment for subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have a dilutive effect on the issued share capital of Sinopec Corp. (the “Conversion Option”). Unless previously redeemed, converted or purchased and cancelled, the 2007 Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. Sinopec Corp. has an early redemption option at any time after 24 April 2011 (subject to certain criteria) (the “Early Redemption Option”) and a cash settlement option when the holders exercise their conversion right (the “Cash Settlement Option”).

During the year ended 31 December 2013, the conversion price of the 2007 Convertible Bonds was adjusted to HKD 8.10 per share in result of dividend distribution, bonus issues and capital reserve converting into paid in capital. At 31 December 2013, the carrying amounts of liability and derivative components, representing the Conversion Option, the Early Redemption Option and the Cash Settlement Option, of the 2007 Convertible Bonds were RMB 10,948 million (2012: RMB 10,842 million; 2011: RMB 10,345 million) and RMB 0.00 million (2012: RMB 114 million; 2011: RMB 70 million), respectively. No conversion of the 2007 Convertible Bonds occurred during 2013.

In 2013, the convertible bond has been reclassified to non-current liabilities due within one year.

The 2007 Convertible Bonds have been due on April 24, 2014, and have been fully paid by the Sinopec Corp. at maturity.

The changes in the fair value of the derivative component from 31 December 2013 to 24 April 2014 resulted in realised loss of RMB 1 million (2013: an unrealised gain of RMB 114 million), which has been recorded under “gain from changes in fair value” in the consolidated income statement for the year ended 31 December 2014.

C. On 26 February 2008, Sinopec Corp. issued convertible bonds with stock warrants due 2014 with an aggregate principal amount of RMB 30 billion in the PRC (the “Bonds with Warrants”). The Bonds with Warrants, which bear a fixed interest rate of 0.80% per annum payable annually, were issued at par value of RMB 100. The Bonds with Warrants were guaranteed by the Group. The initial recognition of the liability component of the Bond with Warrants is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option or other derivative components. Interest expense is calculated using the effective interest method by applying the effective interest rate of 5.40% to the liability component.

In 2013, the convertible bond has been reclassified to non-current liabilities due within one year.

D. On 1 March 2011, Sinopec Corp. issued convertible bonds due 2017 with an aggregate principal amount of RMB 23 billion in the PRC (the “2011 Convertible Bonds”). The 2011 Convertible Bonds are issued at par value of RMB 100 and bear a fixed interest rate of 0.5% per annum for the first year, 0.7% for the second year, 1.0% for the third year, 1.3% for the fourth year, 1.8% for the fifth year and 2.0% for the sixth year. The holders can convert the 2011 Convertible Bonds into shares of Sinopec Corp. from 24 August 2011 onwards at an initial conversion price of RMB 9.73 per share, subject to adjustment for, amongst other things, cash dividends, subdivision or consolidation of shares, bonus issues, issue of new shares, rights issues, capital distribution, change of control and other events which have an effect on the issued share capital of Sinopec Corp. (the “Conversion Option”). Unless previously redeemed, converted or purchased and cancelled, the 2011 Convertible Bonds will be redeemed within 5 trading days after maturity at 107% of the principal amount, including interest for the sixth year. The initial carrying amounts of the liability component and the derivative component, representing the Conversion Option of the 2011 Convertible Bonds, were RMB 19,279 million and RMB 3,610 million, respectively. During the term of the 2011 Convertible Bonds, the conversion price may be subject to downward adjustment that if the closing prices of Sinopec Corp.’s A Shares in any fifteen trading days out of any thirty consecutive trading days are lower than 80% of the prevailing conversion price, the board of directors may propose downward adjustment to the conversion price subject to the shareholders’ approval. The adjusted conversion price shall be not less than (a) the average trading price of Sinopec Corp.’s A Shares for the twenty trading days prior to the shareholders’ approval, (b) the average trading price of Sinopec Corp.’s A Shares on the day immediately before the shareholders’ approval, (c) the net asset value per share based on the latest audited financial statements prepared under ASBE, and (d) the nominal value per share.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

At 31 December 2014, the carrying amounts of the liability component and the derivative component were RMB 13,433 million (2013: RMB 20,913 million) and RMB 3,288 million (2013: RMB 548 million) respectively. During the year ended 31 December 2014, the conversion price of the 2011 Convertible Bonds was adjusted to RMB 4.89 per share as a result of the cash dividends, bonus issues and capital reserve converting into paid in capital. During the year ended 31 December 2014, RMB 8,442 million of the 2011 Convertible Bonds was converted into 1,715,081,853 A shares of Sinopec Corp.

E. Pursuant to the notice (CBRC fu [2007] No. 441), (CBRC fu [2009] No. 101) "Reply to the issue regarding issuance of financial bonds in Sinopec Corp. approved by CBRC" issued by China Banking Regulatory Commission (CBRC), and Administrative license granted by the People's Bank of China (the silver market grant [2007] No. 30), (the silver market grant [2007] No. 25). China Sinopec Finance Company Limited was approved to issue financial bonds in 2009. The financial bonds issued in 2009 were respectively as follows: the total amount of RMB 3,000 million, the effective yield is 3.46%, the holding period is 5 years from June 8, 2009 to June 8, 2014(the Five-year Financial Bonds); total amount of RMB 3,000 million, the effective yield is 2.45%, the holding period is 3 years from June 8, 2009 to June 8, 2012(the Three-year Financial Bonds). Interest on the bonds was paid on the interest payment date after the end of each interest period, and the final interest payment would be paid together with the payment of principal. The Group provides a full unconditional irrevocable joint liability guarantees to the bonds. The principal and interest of the Three-year Financial Bonds were repaid in 2012. And the Five-year Financial Bonds were reclassified to non-current liabilities due within one year, in 2013.

31. Long-term payables

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Financing instalments payable	60	62	64
Finance lease payment payable	1,390	388	480
Other long-term payable	28,493	43,081	36,122
Less: Unrealized financing costs	116	5	14
<b>Total</b>	<b>29,827</b>	<b>43,526</b>	<b>36,652</b>

Note: Pursuant to the notice Cain Gong Zip [1997] No. 268 "The Issue Regarding production safety management Fund of China Petroleum & Chemical Corporation" issued by the Ministry of Finance, the Group established a security guarantee fund. The accumulated balance of security funds in the end of 2013 is RMB 8,634 million, and in the end of 2014 is RMB 3,819 million. The other long-term payables are mainly the return loans for oil fields' purchase price of International Petroleum Exploration and Development Co., Ltd.

32. Provisions

Item	At 31 December 2014 RMB million	At 31 December 2013 RMB million	At 31 December 2012 RMB million
Foreign guaranty	30	30	62
Asset retirement obligations	39,468	33,973	29,005
Other foreseeable liabilities	1,079	1,522	1,208
<b>Total</b>	<b>40,577</b>	<b>35,525</b>	<b>30,275</b>

Note: The asset retirement obligation represent provision for future dismantlement costs of oil and gas properties. The Group has established certain standardized 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. On December 31, 2014, the accumulated provision for the removal obligations of oil and gas assets disposed is RMB 39,468 million.

33. Paid-in Capital

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

33. Paid-in Capital

<b>Investor</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Beginning balance	274,867	249,595	231,621
Appropriation increase from Ministry of Finance	28,355	25,272	17,974
<b>Closing balance</b>	<b>303,222</b>	<b>274,867</b>	<b>249,595</b>

34. Capital reserves

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2011</b> <b>RMB million</b>
Beginning balance	52,720	46,041	45,997
Capital premium	1,341	7,208	-
Other equity change in investees	27	-	-
Other	(2,513)	(529)	44
<b>Closing balance</b>	<b>51,575</b>	<b>52,720</b>	<b>46,041</b>

35. Specific reserve

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Beginning balance	1,685	3,284	2,716
Current year Increase	4,674	5,253	6,249
Current year Decrease	(5,428)	(6,852)	(5,681)
<b>Closing balance</b>	<b>931</b>	<b>1,685</b>	<b>3,284</b>

According to the Circular on Interim Measures for Financial Management of Safety Production Costs in High risk Industry Enterprise (Cain I [2006] No. 478) issued by the Ministry of finance, and the State Administration of Production Safety Supervision and Management. The Group's safety cost is levied according to crude oil RMB 17/ton, natural gas RMB 5/1000m3, 2% of the operating income of the petroleum engineering, 1% of the project cost of installation construction, 0.2% -4% of goods sales of which are included in "the national standards of Dangerous Goods Name List "(GB12268) and "toxic chemicals directory product" issued by the National relevant departments.

36. Surplus reserves

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Beginning balance	176,763	169,466	161,911
Statutory reserve fund	6,434	7,208	7,502
Voluntary reserve fund	75	89	53
<b>Closing balance</b>	<b>183,272</b>	<b>176,763</b>	<b>169,466</b>

Note: Provision of surplus reserve of the Group and its subsidiaries is made basing on 10% of net profit; voluntary surplus reserve can be made after approval from the shareholders' meeting or the general manager of office.

37. General risk reserve

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Beginning balance	657	640	582
Increase: General risk reserve	60	17	58
<b>Closing balance</b>	<b>717</b>	<b>657</b>	<b>640</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

Note: General risk reserve refer to accrual of affiliated financial enterprises (Sinopec Finance Co., Ltd. and Sinopec Shanghai Shish Futures Co., Ltd.), which increased RMB 60 million in 2014.

38. Retained earnings

Item	2014 RMB million	2013 RMB million	2012 RMB million
Beginning balance of retained profits	213,492	173,182	137,187
Add: current year net profit	31,899	54,918	51,869
Other increases	60		
Less: Extraction surplus reserve	6,509	7,297	7,555
Cash dividend distribution	9,886	7,003	8,250
Other decrease	60	308	69
Closing balance of undistributed profit	<b>228,996</b>	<b>213,492</b>	<b>173,182</b>

Other increase was mainly because of the change of the scope of consolidation of Sinopec Finance Co., Ltd.

Other decrease mainly refers to the provision of general risk by affiliated financial enterprises, staff bonus accrued by joint ventures and decrease of bonus and welfare.

39. Operating revenue and operations costs

Item	2014		2013		2012	
	Revenues RMB million	Operating costs RMB million	Revenues RMB million	Operating costs RMB million	Revenues RMB million	Operating costs RMB million
<b>1.Main operations subtotal</b>	<b>5,014,068</b>	<b>4,537,708</b>	<b>5,169,169</b>	<b>4,662,526</b>	<b>4,992,406</b>	<b>4,512,684</b>
Exploitation of oil and gas	296,527	138,913	304,601	123,575	318,601	114,496
Oil refining	1,273,095	1,095,217	1,311,269	1,123,710	1,282,825	1,129,290
Chemical production	473,229	442,324	486,646	454,720	459,666	431,407
Sales of refined oil	1,476,605	1,378,729	1,502,414	1,404,128	1,471,882	1,372,333
Petroleum and petrochemical engineering	151,794	133,152	143,286	126,667	135,347	118,532
Others	1,342,818	1,349,373	1,420,953	1,429,726	1,324,085	1,346,626
<b>2.Other operations subtotal</b>	<b>38,041</b>	<b>32,882</b>	<b>36,435</b>	<b>32,102</b>	<b>36,399</b>	<b>32,685</b>
<b>Subtotal</b>	<b>5,052,109</b>	<b>4,570,590</b>	<b>5,205,604</b>	<b>4,694,628</b>	<b>5,028,805</b>	<b>4,545,369</b>
<b>Offset</b>	2,162,175	2,130,773	2,260,529	2,225,029	2,198,196	2,180,104
<b>Total</b>	<b>2,889,934</b>	<b>2,439,817</b>	<b>2,945,075</b>	<b>2,469,599</b>	<b>2,830,609</b>	<b>2,365,265</b>

Note: Other operating revenue is mainly material sales revenue, assets lease revenue, technology transfer and service revenue and other service revenue.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

40. Business taxes and surcharges

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Business tax	2,987	3,001	3,355
Consumption tax	136,925	134,011	129,185
Special Petroleum Proceeds	22,239	25,602	29,203
Resource tax	16,764	16,840	17,281
The tax on city maintenance and construction	14,555	14,097	13,212
Educational expenses to add	10,807	10,674	10,013
other	1,552	3,597	3,579
<b>Total</b>	<b>205,829</b>	<b>207,822</b>	<b>205,828</b>

41. Financial expenses

<b>Categories</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
The net interest expenses	15,730	15,571	14,814
Inc: Interest expenses	18,220	17,434	16,575
Interest income	2,490	1,863	1,761
Exchange net loss	1,594	(3,639)	(318)
Other expenses	1,787	1,466	1,457
Inc: poundage spending	832	680	531
<b>Total</b>	<b>19,111</b>	<b>13,398</b>	<b>15,953</b>

42. Assets impairment losses

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Impairment loss for bad and doubtful accounts	799	(1,024)	(67)
Allowance for diminution in value of inventories	3,238	1,528	7,040
Held-to-maturity investments impairment loss	-	0	(3)
Available for sale financial assets impairment loss	207	607	-
Long term equity investment impairment loss	2	2	-
Fixed assets impairment loss	1,041	173	8
Oil and gas assets impairment loss	4,238	2,520	1,006
Intangible assets impairment loss	179	-	-
Construction supplies impairment loss	399	365	-
Construction in progress impairment loss	10	15	-
Other impairment loss	(78)	150	(137)
<b>Total</b>	<b>10,035</b>	<b>4,336</b>	<b>7,847</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

43. Gain from changes of fair value (loss)

<b>Item</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
1.Trading financial assets	1	(2)	1
2.Trading financial liabilities	6	30	152
3. Derivative financial instruments	(4,242)	2,028	31
4.The hedging losses	-	(5)	5
5.Other	84	114	18
<b>Total</b>	<b>(4,151)</b>	<b>2,165</b>	<b>207</b>

44. Investment income (loss)

<b>Categories</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Income from trading financial assets	19	14	4
Income from long-term equity investment	4,357	3,173	5,997
Inc: Equity investments measured at cost	-		210
Equity investments in equity method	4,126	3,141	5,610
Gains from equity disposal	231	32	177
Income from held-to-maturity investments	6	13	66
Income from available-for-sale financial assets	5,640	624	284
Income from trading financial liabilities	2		
Other investment income	2,004	58	(139)
<b>Total</b>	<b>12,028</b>	<b>3,882</b>	<b>6,212</b>

45. Non-operating income

<b>Categories</b>	<b>2014</b> <b>RMB million</b>	<b>2013</b> <b>RMB million</b>	<b>2012</b> <b>RMB million</b>
Gain from disposal of non-current assets	906	652	1,340
Inc: Gain from disposal of fixed assets	620	457	628
Gain from disposal of contract in progress	-	-	630
Non-monetary assets exchange gains	-	-	3
Debt restructuring gains	4	3	1
Penalty income	27	24	22
Government grants	4,711	3,681	3,981
Donations gains	1	6	3
Accounts payable that cannot be paid	608	423	437
Revenue from penalty compensation	20	31	14
Others	1,449	716	772
<b>Total</b>	<b>7,726</b>	<b>5,536</b>	<b>6,573</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

46. Non-operating expenses

Categories	2014	2013	2012
	RMB million	RMB million	RMB million
Subtotal losses on disposal of non-current assets	2,487	1,630	1,082
Incl.: Losses on disposal of fixed assets	2,397	1,354	1,020
Losses on debt restructuring	-	3	26
Fines	126	64	197
Donation	206	348	272
Extraordinary losses	8	141	20
Expected losses on pending litigation	2	19	17
Losses on liquidated damages /compensations	55	55	70
Others	1,090	2,720	2,175
<b>Total</b>	<b>3,974</b>	<b>4,980</b>	<b>3,859</b>

Note: Other expenses mainly refers to the subsidy expenses for employees who were fired by negotiation, employees who were fired because of reorganization of state-owned enterprise, and employees who leave their post before retirement and families of the employees above-mentioned.

47. Income tax expenses

Item	2014	2013	2012
	RMB million	RMB million	RMB million
Current income tax	33,866	36,953	36,363
Deferred income tax (profit)	(162)	194	(1,492)
<b>Total</b>	<b>33,704</b>	<b>37,147</b>	<b>34,871</b>

48. Other comprehensive income

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

Item	2014 RMB million			2013 RMB million			2012 RMB million		
	Pre-tax amount	Income tax	After-tax amount	Pre-tax amount	Income tax	After-tax amount	Pre-tax amount	Income tax	After-tax amount
<b>1. Other comprehensive income attributable to shareholders of the company</b>	<b>(20,529)</b>	<b>(1,391)</b>	<b>(19,138)</b>	<b>(6,999)</b>	<b>291</b>	<b>(7,290)</b>	<b>(13)</b>	<b>62</b>	<b>(75)</b>
(1) Items that cannot be reclassified to profit or loss	(399)	(78)	(321)	(127)	14	(141)	119	27	92
a. changes of net liabilities or net assets due to recalculate defined benefit plans	(399)	(78)	(321)	(127)	14	(141)	119	27	92
(2) Items that may be reclassified to profit or loss	(20,130)	(1,313)	(18,817)	(6,872)	277	(7,149)	(132)	35	(167)
a. Shares of other comprehensive income of investee that may be reclassified to profit or loss under equity method	(5,029)	-	(5,029)	(3,477)	-	(3,477)	31	-	31
b. Profit or loss of available-for-sale financial assets	1,687	447	1,240	1,460	219	1,241	218	76	142

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Item	2014 RMB million			2013 RMB million			2012 RMB million		
	Pre-tax amount	Income tax	After-tax amount	Pre-tax amount	Income tax	After-tax amount	Pre-tax amount	Income tax	After- tax amount
Less: Amount recognized in other comprehensive income in prior period transferred to profit or loss in current period	4,213	1,053	3,160	123	31	92	88	19	69
<b>Subtotal</b>	<b>(2,526)</b>	<b>(606)</b>	<b>(1,920)</b>	<b>1,337</b>	<b>188</b>	<b>1,149</b>	<b>130</b>	<b>57</b>	<b>73</b>
(3) Effect of income tax arising from cash flow hedges financial instrument	(9,676)	(707)	(8,969)	577	89	488	(137)	(22)	(115)
(4) Translation difference in foreign currency statements	(2,899)	-	(2,899)	(5,309)	-	(5,309)	(156)	-	(156)
<b>2. Other comprehensive income attributable to minority share-holders</b>	<b>(4,780)</b>	<b>(424)</b>	<b>(4,356)</b>	<b>355</b>	<b>153</b>	<b>202</b>	<b>(45)</b>	<b>1</b>	<b>(46)</b>
<b>Total</b>	<b>(25,309)</b>	<b>(1,815)</b>	<b>(23,494)</b>	<b>(6,644)</b>	<b>444</b>	<b>(7,088)</b>	<b>(58)</b>	<b>63</b>	<b>(121)</b>

(2) Reconciliation of other comprehensive income

Items	2012/1/1	Changes in 2012	2012/12/31	Changes in 2013	2013/12/31	Changes in 2014	2014/12/31
<b>1. Other comprehensive income attributable to share-holders of the company</b>	<b>(6,643)</b>	<b>(75)</b>	<b>(6,718)</b>	<b>(7,290)</b>	<b>(14,008)</b>	<b>(19,138)</b>	<b>(33,146)</b>
(1) Items that cannot be reclassified to profit or loss	27	92	119	(141)	(22)	(321)	(343)
a. changes of net liabilities or net assets due to recalculate defined benefit plans	27	92	119	(141)	(22)	(321)	(343)
(2) Items that may be reclassified to profit or loss	(6,670)	(167)	(6,837)	(7,149)	(13,986)	(18,817)	(32,803)
a. Shares of other comprehensive income of investee that may be reclassified to profit or loss under equity method	(509)	31	(478)	(3,477)	(3,955)	(5,029)	(8,984)
b. Profit or loss of available-for-sale financial assets	894	142	1,036	1,241	2,277	1,240	3,517
Less: Amount recognized in other comprehensive income in prior period transferred to profit or loss in current period	(12)	69	57	92	149	3,160	3,309
<b>Subtotal</b>	<b>906</b>	<b>73</b>	<b>979</b>	<b>1,149</b>	<b>2,128</b>	<b>(1,920)</b>	<b>208</b>
(3) Effect of income tax arising from cash flow hedges financial instrument	(19)	(115)	(134)	488	354	(8,969)	(8,615)
(4) Translation difference in foreign currency statements	(7,048)	(156)	(7,204)	(5,309)	(12,513)	(2,899)	(15,412)

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Items	2012/1/1	Changes in 2012	2012/12/31	Changes in 2013	2013/12/31	Changes in 2014	2014/12/31
<b>2. Other comprehensive income attributable to minority share-holders</b>	<b>(1,039)</b>	<b>(46)</b>	<b>(1,085)</b>	<b>202</b>	<b>(883)</b>	<b>(4,356)</b>	<b>(5,239)</b>
<b>Total</b>	<b>(7,682)</b>	<b>(121)</b>	<b>(7,803)</b>	<b>(7,088)</b>	<b>(14,891)</b>	<b>(23,494)</b>	<b>(38,385)</b>

49. Notes to cash flows statement

(1) Supplementary Information of cash flow statement

Supplementary Information	2014 RMB million	2013 RMB million	2012 RMB million
<b>1.Reconciliation of net profit to cash flows from operating activities</b>			
<b>Net profit</b>	<b>45,149</b>	<b>77,668</b>	<b>69,791</b>
Add: Provision for asset impairment	10,035	4,336	7,847
Depreciation of fixed assets, oil and gas assets depletion, productive living assets depreciation	119,203	102,515	101,826
Amortization of intangible assets	4,044	3,393	2,976
Amortization of long-term prepaid expenses	7,936	7,292	7,078
Net losses/(gain) on disposal of fixed assets, intangible assets and other long-term assets	1,581	979	(257)
Fixed assets, oil and gas assets and investment property disposal loss	65	176	31
Fair value change gain	4,151	(2,165)	(207)
Financial expenses	19,818	13,795	17,221
Exploration costs	15,988	9,823	13,099
Investment income(loss)	(12,028)	(3,882)	(6,212)
Decrease /(increase) in deferred income tax assets	(696)	(419)	(3,076)
Increase in deferred income tax liabilities	534	225	1,583
Decrease /(increase) in inventories	13,091	(12,234)	(35,060)
Decrease /(increase) in operating receivables	(17,021)	(29,140)	(15,681)
Increase /(decrease) in operating payables	(36,501)	(20,551)	9,404
<b>Net cash flows from operating activities</b>	<b>175,349</b>	<b>151,811</b>	<b>170,363</b>
<b>2. Net increase in cash and cash equivalents</b>			
<b>Cash at end of year</b>	<b>35,280</b>	<b>53,129</b>	<b>42,651</b>
Less: cash at beginning of year	53,129	42,651	77,430
<b>Net increase in cash and cash equivalents</b>	<b>(17,849)</b>	<b>10,478</b>	<b>(34,779)</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

(2) Information on acquisition of subsidiaries and other business units during the year

<b>Item</b>	<b>2014 RMB million</b>	<b>2013 RMB million</b>	<b>2012 RMB million</b>
1.Consideration for acquiring subsidiaries and other business units	-	63	1,609
2.Cash and cash equivalents paid for acquiring subsidiaries and other business units	-	63	1,708
Less: Cash and cash equivalents	-	-	267
3.Net cash paid for the acquisition	-	63	1,441
4.Net assets held by the acquired subsidiaries and other business units	-	6	275
Current assets	-	15	293
Non-current assets	-	6	4
Current liabilities	-	15	-
Non-current liabilities	-	-	21

(3) Cash and cash equivalents

<b>Item</b>	<b>2014 RMB million</b>	<b>2013 RMB million</b>	<b>2012 RMB million</b>
<b>1.Cash</b>	<b>35,280</b>	<b>53,129</b>	<b>42,651</b>
Incl.: Cash on hand	86	96	72
Bank deposit readily available for payment	32,814	51,318	39,824
Other monetary fund readily available for payment	2,380	1,715	2,755
<b>2. Closing balance of cash and cash equivalents</b>	<b>35,280</b>	<b>53,129</b>	<b>42,651</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

50. Segment information

For the year ended December 31, 2014

<b>Item</b>	<b>Exploration and Production RMB million</b>	<b>Refining RMB million</b>	<b>Chemicals RMB million</b>	<b>Marketing and Distribution RMB million</b>
1. Operating revenue	296,527	1,273,095	473,229	1,476,605
Incl: external transaction revenue	154,983	180,851	411,021	1,471,159
Divisional transaction revenue	141,544	1,092,244	62,208	5,446
2. Operating total cost	259,550	1,278,946	479,953	1,446,462
3. Operating profit/(loss)	40,291	(6,698)	(5,516)	31,888
4. Total assets	942,077	297,884	209,958	276,296
5. Total liabilities	502,895	67,328	56,698	118,161

For the year ended December 31, 2014 (continued)

<b>Item</b>	<b>Oil &amp; Petrochemical Engineering Technical Services RMB million</b>	<b>Others RMB million</b>	<b>Elimination of inter- segment RMB million</b>	<b>Total RMB million</b>
1. Operating revenue	151,794	1,380,859	(2,162,175)	<b>2,889,934</b>
Incl: external transaction revenue	151,794	786,107	(265,981)	<b>2,889,934</b>
Divisional transaction revenue	-	594,752	(1,896,194)	-
2. Operating total cost	147,030	1,375,673	(2,164,904)	<b>2,822,710</b>
3. Operating profit/(loss)	5,213	10,102	(179)	<b>75,101</b>
4. Total assets	143,547	568,823	(210,219)	<b>2,228,366</b>
5. Total liabilities	98,759	530,116	(96,250)	<b>1,277,707</b>

For the year ended December 31, 2013

<b>Item</b>	<b>Exploration and Production RMB million</b>	<b>Refining RMB million</b>	<b>Chemicals RMB million</b>	<b>Marketing and Distribution RMB million</b>
1. Operating revenue	304,601	1,311,269	486,646	1,502,414
Incl: external transaction revenue	145,983	200,265	430,647	1,496,084
Divisional transaction revenue	158,618	1,111,004	55,999	6,330
2. Operating total cost	246,403	1,304,539	490,184	1,467,745
3. Operating profit/(loss)	59,716	6,285	(2,693)	35,646
4. Total assets	865,923	329,236	204,747	273,876
5. Total liabilities	473,066	69,029	50,269	101,563

For the year ended December 31, 2013 (continued) :

<b>Item</b>	<b>Oil &amp; Petrochemical Engineering Technical Services RMB million</b>	<b>Others RMB million</b>	<b>Elimination of inter- segment RMB million</b>	<b>Total RMB million</b>
1. Operating revenue	143,286	1,462,451	(2,265,592)	<b>2,945,075</b>
Incl: external transaction revenue	143,286	816,074	(287,264)	<b>2,945,075</b>
Divisional transaction revenue	-	646,377	(1,978,328)	-
2. Operating cost	138,385	1,456,867	(2,267,260)	<b>2,836,863</b>
3. Operating profit/(loss)	5,235	10,997	(927)	<b>114,259</b>
4. Total assets	138,196	338,054	(13,109)	<b>2,136,923</b>
5. Total liabilities	90,447	450,660	(1,141)	<b>1,233,893</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

For the year ended December 31, 2012

<b>Item</b>	<b>Exploration and Production RMB million</b>	<b>Refining RMB million</b>	<b>Chemicals RMB million</b>	<b>Marketing and Distribution RMB million</b>
1. Operating revenue	318,601	1,282,825	459,666	1,471,882
Incl: external transaction revenue	142,885	210,862	404,064	1,462,244
Divisional transaction revenue	175,716	1,071,963	55,602	9,638
2. Operating cost	244,682	1,300,179	462,611	1,429,560
3. Operating profit/(loss)	78,038	(17,354)	(2,349)	42,322
4. Total assets	780,489	303,190	191,189	259,223
5. Total liabilities	423,149	56,259	54,255	85,280

For the year ended December 31, 2012 (continued)

<b>Item</b>	<b>Oil &amp; Petrochemical Engineering Technical Services RMB million</b>	<b>Others RMB million</b>	<b>Elimination of inter-segment RMB million</b>	<b>Total RMB million</b>
1. Operating revenue	135,347	1,367,040	(2,204,752)	<b>2,830,609</b>
Incl: external transaction revenue	135,347	722,901	(247,694)	<b>2,830,609</b>
Divisional transaction revenue	-	644,139	(1,957,058)	-
2. Operating cost	131,080	1,370,415	(2,203,447)	<b>2,735,080</b>
3. Operating profit/(loss)	4,801	(1,716)	(1,794)	<b>101,948</b>
4. Total assets	120,941	302,299	(9,254)	<b>1,948,077</b>
5. Total liabilities	88,101	449,723	(461)	<b>1,156,306</b>

Note: For better understanding, the Group consolidated business segments that mainly provide services for internal production departments, and adjusted them to other business segments.

**IX. RELATED PARTY RELATIONSHIP AND TRANSACTIONS**

1. Related parties

Related parties that are in control relationship with the Group

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Name of related party	Registration place	Principal activities	Relationship with the Group	Types of legal entity	Legal representative
Sinopec Corp.	Beijing	Production and sales of petrochemical products	Subsidiary	State-holed	Fu Chengyu
Sinopec Assets Management Corporation	Beijing	Management of State-owned assets and Cultural, educational health and community services	Subsidiary	State-owned	Xie Zhenglin
Sinopec Oilfield Equipment Corporation	Wuhan	Production and sales of petroleum equipment and oil and gas pipelines	Subsidiary	State-owned	Xie Yongjin
Shengli Petroleum Administration Bureau	Dongying	Community's security and water & electricity supply	Subsidiary	State-owned	Sun Huanquan
Zhongyuan Petroleum Exploration Bureau	Puyang	Community's security and water & electricity supply	Subsidiary	State-owned	Kong Fanqun
Henan Petroleum Exploration Bureau	Nanyang	Community's security and water & electricity supply	Subsidiary	State-owned	Sun Qingde
Jiangnan Petroleum Administration Bureau	Qianjiang	Community's security and water & electricity supply	Subsidiary	State-owned	Sun Jian
Kingdream Public Limited Company	Wuhan	Oil & gas drilling bit	Subsidiary	State-owned	Zhang Zhaoping
Jiangsu Petroleum Exploration Bureau	Yangzhou	Community's security and water & electricity supply	Subsidiary	State-owned	Zhu Ping
Sinopec Star Petroleum Co. Ltd.	Beijing	Construction and technical services	Subsidiary	State-owned	Yuan Qing
Northwest Petroleum Bureau	Wulumuqi	Community and assets management	Subsidiary	State-owned	Chen Mingzheng
North China Petroleum Bureau	Zhengzhou	Community security and public services	Subsidiary	State-owned	Zhou Liqing
East China Petroleum Bureau	Nanjing	Community security, oil & gas field engineering services and minerals development	Subsidiary	State-owned	Fang Zhixiong
Southwest China Petroleum Bureau	Chengdu	Community security and natural gas sales	Subsidiary	State-owned	Gan Zhenwei
Northeast China Petroleum Bureau	Changchun	Oil field services and property management	Subsidiary	State-owned	Xing Jingbao
Shanghai Offshore Petroleum Bureau	Shanghai	Community's security and water & electricity supply	Subsidiary	State-owned	Xing Jingbao
Pipeline Storage and Transportation Company	Xuzhou	Operation and maintenance of oil and gas pipelines	Subsidiary	State-owned	Xia Yufei
Sinopec Oilfield Service Corporation	Beijing	Well drilling and logging	Subsidiary	State-owned	Jiao Fangzheng
Sinopec Finance Company Ltd.	Beijing	Financial services	Subsidiary	State-held	Li Chunguang
Tendering Co., Ltd.	Beijing	Bidding agents and consulting	Subsidiary	State-held	Zhang Kehua
International Petroleum Exploration and Development Co., Ltd.	Beijing	oil & gas exploration and development	Subsidiary	State-owned	Wang Zhigang
Sinopec Engineering (Group) Co., Ltd.	Beijing	Engineering, EPC and construction	Subsidiary	State-owned	Zhang Jianhua
Sinopec Century Bright Capital Investment Ltd.	Hongkong	Investing and financing	Subsidiary	State-owned	Wen Dongfen
China Petrochemical Consulting Corporation	Beijing	Evaluation and counselling of investment	Subsidiary	State-owned	Li Xihong

NOTES TO THE FINANCIAL STATEMENTS  
for the years ended December 31, 2012, 2013 and 2014

Name of related party	Registration place	Principal activities	Relationship with the Group	Types of legal entity	Legal representative
Sinopec Baichuan Economic and Trade Company	Beijing	Management of real estate and operating of hotels	Subsidiary	State-owned	Yang Jun
Economic & Technology Research Institute	Beijing	Management and technical supports	Subsidiary	State-owned	Li Xihong
Petroleum and Chemical Management Institute	Beijing	Training and academic exchanges	Subsidiary	State-owned	Zhou zhiming
China Petrochemical News	Beijing	Publication	Subsidiary	State-owned	Zhou hengyou
China Petrochemical Press Co. LTD	Beijing	Publication and distribution	Subsidiary	State-owned	Wang Zikang
Economic Press. China	Beijing	Publication and distribution	Subsidiary	State-owned	Luan Jianmin
Authority Service Center	Beijing	Logistics services	Subsidiary	State-owned	Yang Jun
Petroleum & Chemical Engineering Quality Supervision Station	Beijing	Inspection, testing and management	Subsidiary	State-owned	Zhou Guo
Sinopec Engineering Quality Inspection Centre	Beijing	Monitoring and testing of petrochemical engineering quality	Subsidiary	State-owned	Zhou Guo
Petroleum Commercial Reserves Co. Ltd.	Beijing	Crude oil reserves and wholesales	Subsidiary	State-owned	Zhou Liwei
Research Institute of Petroleum Engineering Technology	Beijing	Petroleum machinery fabrication	Subsidiary	State-owned	Lu Baoping
Sinopec Shanghai Zheshi Futures Co., Ltd.	Shanghai	Domestic commodity futures and financial futures brokerage	Subsidiary	State-holed	Liu Jianguo
Sinopec Group Overseas Development Co., Ltd.	British Virgin Islands	Investing and financing	Subsidiary	State-owned	Fu Chengyu
Sinopec Insurance Co. LTD.	Hong Kong	Assets insurance	Subsidiary	State-owned	Liu Yun

Related parties that are not in control relationship with the Group

None.

2. Related transactions

None.

**X. CONTINGENCE**

1. Contingent liabilities from guarantees

As of December 31, 2014, Sinopec Group has provided several guarantees as below:

(1) Extra-group guarantees

a. Assets Management Co., Ltd. has provided 134 guarantees, which amounted to RMB 671 million. Those guarantees are mainly involved for its associates and joint ventures, such as providing Joint liability loan guarantee to its associate named Yangzjiang Petrochemical Acetyl Co.,Ltd, which amounted to RMB 20 million (not overdue); providing Joint liability loan guarantee to its joint venture named Xinjiang Weimei Chemical Co., Ltd., which amounted to RMB 255 million (not overdue); providing Joint liability loan guarantee to its associate named Anhui Anqing Shuguang Chemical Co., Ltd, which amounted to RMB 193million (not overdue); providing Joint liability loan guarantee to its joint venture named Jinling DSM Co., Ltd, which amounted to RMB 71million (not overdue).

Assets Management Co., Ltd. has provided 127 overdue guarantees, which amounted to RMB 133 million. Those guarantees are mainly involved for its subsidiaries before they were incorporated in Sinopec Group. For judgment and potential liable guarantees, Sinopec Group has provision for RMB 30 million estimated liabilities. The rest are not involved in litigation or cannot be recognized the scope of liability.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

b. Sinopec Corp. has provided 3 loan guarantees of RMB 5,720 million, which are all involved for its associates and joint ventures (not overdue). Sonangol Sinopec International Limited has provided RMB 5,551 million loan guarantee for New Bright International Development Limited. Sinopec Corp. has provided RMB 158 million loan guarantee for Yueyang Sinopec Shell Coal Gasification Corporation. Sinopec Great Wall Energy and Chemical Industry Company Limited has provided RMB 10 million loan guarantee for ZhongAn LianHe Coal Chemical Co., Ltd.

(2) Intra-group guarantees

The Group has provided 9 overdue guarantees for intra-group companies of 11 million. The guarantees are provided by Henan Oil Company and Anhui Oil Company (branches of Assets Management Co., Ltd.) to their companies before transferred to the group.

2. 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.

3. Contingent liabilities caused by discounted commercial acceptance bills

As of December 31, 2014, there is no contingent liabilities caused by discounted commercial acceptance bills that need to be disclosed.

4. Contingent liabilities regarding environmental protection

According to the current laws and regulations, the management believes that there is no possibility that significant liability that has adverse impact on the Group's financial position or results of operations. However, the Chinese government has begun the implementation of applicable regulations and may intensify the implementation, and adopt more stringent environmental standards. There are some uncertain factors exist in the liabilities of environmental aspects, which will affect the final cost ability of remedial measures estimates of the Group. These uncertainties include: i) the various venues, including but not limited to oil refineries, oil fields, gas station, wharf and Land Development Zone (whether it is in operation, have been closed or sold out), pollution nature and degree; ii) range needs clear measures; iii) remedial strategies available generate different cost; iv) environmental remediation requirements changes; and v) new remediation site. Because of the unknown possible contamination degree and implementation time and range of unknown required corrective action, it is unable to determine the future cost amount. Therefore, it is unable to reasonably estimate the environmental liabilities consequences arising from the proposed or future environmental regulations. In 2014, Sinopec Corp. paid standard pollutant cleanup costs of RMB 5,352 million (2013: RMB 5,154 million, 2012: RMB 4,813 million)

5. The other contingent liabilities

As of December 31, 2014, there are no other contingent liabilities that need to be disclosed.

**XI. SUBSEQUENT EVENTS**

According to the Articles of Association and Directors Minus on March 20, 2015, the board of directors of Sinopec Corp. proposed to distribute cash dividends of RMB 0.11 per share. This proposal is yet to be approved by the annual general meeting of shareholders.

According to the Articles of Association and Directors Minus on March 27, 2015, the board of directors of SEG proposed to distribute cash dividends of RMB 0.187 per share. This proposal is yet to be approved by the annual general meeting of shareholders.

**XII. BUSINESS COMBINATIONS AND RESTRUCTURING**

1. Investments, Equity mergers and Acquisitions

(1) Acquisition of 10% interests in Block SSI31 of Marathon

On June 28, 2013, SIPC entered into an acquisition agreement with Marathon Oil Company to buy Marathon's 10 percent stake on Angolan field called Block SSI31 for \$1.55 billion. The acquisition date was January 1, 2013 and the delivery date was February 7, 2014.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the years ended December 31, 2012, 2013 and 2014**

(2) Acquisition of 10% interests in Project PNW LNG in Canada

On February 21, 2014, Sinopec Daylight Energy Ltd., one of the SIPC's subsidiaries, has taken a stake of 15% in Pacific Northwest LNG Ltd and Pacific Northwest LNGLP for US\$ 1,676 million to obtain 10% interest in Project PNW LNG in Canada. The acquisition date was 1 January 1, 2013 and the delivery date was June 7, 2014.

(3) Acquisition of 50% interests in Caspian Investment Resources in Kazakhstan

Caspian Investment Resources (hereinafter referred to as "CIR"), is a joint venture between Sinopec Group and OAO LUKoi Port Group Co., Ltd with share proportion of 50%:50% held by each partner. CIR holds different proportion from 50% to 100% interest in 5 oilfields on production. On April 15, 2014, SIPC has signed an acquisition agreement with OAO LUKoi to obtain the rest 50% interest. As of December 31, 2014, the acquisition has not delivered.

2. Other restructuring

(1) Sinopec Marketing Co. Ltd's capital injection

According to the "Proposal to Start the Restructuring of Sinopec's Marketing Segment and to Introduce Social and Private Capital to Realize Diversified Ownership of the Segment" approved at the 14th Meeting of the Fifth Session of the Board convened on 19 February 2014 by Sinopec Corp. Sinopec Marketing Co. Ltd (currently a wholly-owned subsidiary of Sinopec Corp) entered into the Capital Injection Agreement with 25 domestic and foreign investors, pursuant to which the investors will subscribe for 29.99% shareholding interest in Marketing Co. for an aggregate amount of RMB 107.094 billion (including amount in U.S. dollar equivalent). Upon completion of the Capital Injection, Marketing Co. is 70.01% held by Sinopec Corp. and 29.99% held by the Investors in aggregate. The Capital Injection has been approved by Ministry of Commerce according to as of 31 December 2014, the Company has obtained the relevant official approvals regarding the Capital Injection, including the "Official Approval of National Development and Reform Commission regarding the Approval of Merger and Acquisition and Capital Injection Projects of Sinopec Marketing Co., Ltd." (Fa Gai Wai Zi No.[2014]2955) and the "Official Approval of the Ministry of Commerce regarding its Consent to the Capital Injection by Sinopec Marketing Co., Ltd." (Shang Zi Pi No.[2014]1238) etc. As of March 6, 2015, Sinopec Corp. has received the actual investment totalled RMB 105,044 million, representing 29.58% equity interest of Marketing Co.

(2) Sinopec Oilfield Service Corporation's restructurings and listings

According to the "Decision on Sinopec Oilfield Service Corporation's Restructurings and Listings"(Sinopec Zi [2014] No.422) , the "Proposal on the Material Assets Reorganization of Sinopec Yizheng Chemical Fibre Company Limited" approved by Sinopec Group at the 18th Meeting of the First Session of the Board convened on 12 September 2014 Yizheng Chemical Fibre intends to repurchase and cancel the 2.415 billion A Shares held by Sinopec Corp. with entire assets and liabilities and then issue shares direct to Sinopec Group to take over 100% equities in Sinopec Oilfield Service Corporation

According to "the Approval to matters in relation to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Subsequent A Share Placement" (SASAC Property Right [2014] No.1015) issued by the State-owned Assets Supervision and Administration Commission and "the Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement"(CSRC Permit [2014] No.1370) issued by China Securities Regulatory Committee, Sinopec Oilfield Service Corporation implemented the delivery of assets on December 30, 2014. After the delivery, Sinopec Group holds 9,224 million A-share and the shareholding ratio is 72.01%.

And according to "the Approval to the Material Asset Reorganisation of Sinopec Yizheng Chemical Fibre Company Limited and Issuance of Shares to China Petrochemical Corporation for Asset Acquisition and Subsequent A Share Placement"(CSRC Permit [2014] No.1370), Yizheng Chemical Fibre issued no more than 2,298,850,574 new shares to raise money for the material Asset Reorganisation

On February 13, 2015, Yizheng Chemical Fibre issued private placements of 1.33 billion shares and raised RMB 6,000 million to 7 certain investors such as Darry Asset Management (Hangzhou) Co., Ltd. After the private placements, the capital stock of Yizheng Chemical Fibre changed to 14,142,660,995 shares. Consequently, Sinopec Group's stake in Yizheng Chemical Fibre has fallen to 65.22%

Yizheng Chemical Fibre renamed Sinopec Oilfield Service Corporation on March 20, 2015.

(3) Kingdream Public Limited Company: Non-public offering to raise capital for the purchase of Sinopec Oilfield Equipment Corporation.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

According to the “Decision on Sinopec Oilfield Equipment Corporation’s Listings”(Sinopec Zi [2014] No.421) , the “Proposal on the Non-public Offering of Kingdream Public Limited Company to Raise Capital for the Purchase of Assets” approved by Sinopec Group at the 18th Meeting of the First Session of the Board convened on 12 September 2014 and the relevant proposals on non-public offering to raise capital for the purchase approved Kingdream Public Limited Company (“KPLC”) at the 26th Meeting of the Fifth Session of the Board convened on 12 September 2014, KPLC intends to issue non-public A shares to no more than 10 specific investors and the raised funds will be used to purchase 100% stake of P Sinopec Oilfield Equipment Corporation (hereinafter referred to as “the Insurance and Acquisition”). The Insurance and Acquisition has been approved and the assessment of related underlying assets has been filed by SASAC. And on March 2, 2015, the Insurance and Acquisition has been conditionally approved by CSRC. The insurance is currently in preparation stage.

**XIII. Other important matters**

A. Some leases of Project Devon of SIPC’s wholly-owned subsidiary, SIPC America, expired at the end of 2014 and the management of SIPC hasn’t made a decision whether to continue to develop.

Project SDA of SIPC America is about unconventional oil and gas assets, and the mainly assets of it are exploratory assets. At the end of 2014, part of the leases expired and SIPC America has written off the land assets not continued according to the management’s exploration arrangement. And SIPC will make a decision on whether to continue the contract of the remaining capitalized leases.

B. SIPC’s wholly-owned subsidiary, SIPC Addax hasn’t come to an agreement with TALISMAN on Talisman Sinopec Energy UK.

SIPC Addax holds a 49% stake of Talisman Sinopec Energy UK (hereinafter referred to as “TSEUK”), while Talisman Energy Inc. (hereinafter referred to as “Talisman”), holds 51%. Affected by decline in oil prices and negative capital investment of Talisman due from financial strain, TSEUK recognized impairment loss of oil and gas assets. SIPC believes that there is no impairment on the long-term equity investment and long-term claim to TSEUK due to:

Talisman has been sold to Repsol Brazil by its shareholders and by the date of the audits’ report issued, the delivery hasn’t been completed. SIPC Addax hasn’t reached an agreement on the exploration plan. Accordingly, SIPC Addax believes there is no impairment on the long-term equity investment and long-term claim to TSEUK on the basis of reserve report in 2013.

SIPC Addax intends to make an allegation against Talisman and is being a positive contact about possible compensation.

**XIV. NOTES TO THE MAIN ITEMS OF PARENT COMPANY’S FINANCIAL STATEMENTS**

1. Long-term equity investment

Item	At 31	At 31	At 31
	December 2014	December 2013	December 2012
	RMB million	RMB million	RMB million
Investment in subsidiaries	439,755	406,750	376,541
Investment in joint ventures	2,503		
Investment in associates	2,282	2,603	2,679
<b>Subtotal</b>	<b>444,540</b>	<b>409,353</b>	<b>379,220</b>
Less: Long-term equity investment impairment			
<b>Total</b>	<b>444,540</b>	<b>409,353</b>	<b>379,220</b>

2. Operating revenue and operating costs

Item	2014		2013		2012	
	RMB million		RMB million		RMB million	
	Revenue	Costs	Revenue	Costs	Revenue	Costs
Revenue from intangible assets rental	9,670		9,857	-	5,797	-
Others	-		34	34	19	18
<b>Total</b>	<b>9,670</b>		<b>9,891</b>	<b>34</b>	<b>5,816</b>	<b>18</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the years ended December 31, 2012, 2013 and 2014

3. Investment income

<b>Item</b>	<b>2014</b> <b>RMB</b> <b>million</b>	<b>2013</b> <b>RMB</b> <b>million</b>	<b>2012</b> <b>RMB</b> <b>million</b>
Long term equity investment gains	29,598	21,513	20,053
Incl.: Investment income recognized by the cost method	21,488	21,544	20,013
Investment income recognized by equity method	3,145	(31)	40
Gain on disposal of equity	4,965		
Other investment gains	511	6	30
<b>Total</b>	<b>30,109</b>	<b>21,519</b>	<b>20,083</b>

4. Supplementary Information of cash flows statements

<b>Supplementary Information</b>	<b>2014</b> <b>RMB</b> <b>million</b>	<b>2013</b> <b>RMB</b> <b>million</b>	<b>2012</b> <b>RMB</b> <b>million</b>
<b>1.Reconciliation of net profit to cash flows from operating activities</b>			
<b>Net profit</b>	<b>36,120</b>	<b>26,635</b>	<b>21,630</b>
Add: Provision for asset impairment	-	-	-
Depreciation of fixed assets, oil and gas assets depletion, investment property, depreciation and amortization	111	46	34
Amortization of intangible assets	525	523	518
Financial expenses	1,533	1,572	2,020
Losses arising from investments	(30,109)	(21,518)	(20,083)
Decrease in inventory	(1)		
Decrease in operating receivables	(8)	140	(21)
Increase in operating payables	(6,412)	(8,655)	(688)
<b>Net cash flows from operating activities</b>	<b>1,759</b>	<b>(1,257)</b>	<b>3,410</b>
<b>2. Investing and financing activities that do not involve cash receipts and payments</b>			
Conversion of debt into capital		-	-
<b>3. Net increase in cash and cash equivalents</b>			
<b>Cash at end of year</b>	<b>17,387</b>	<b>23,591</b>	<b>15,350</b>
Less: cash at beginning of year	23,591	15,350	27,110
<b>Net increase in cash and cash equivalents</b>	<b>(6,204)</b>	<b>8,241</b>	<b>(11,760)</b>

Cash and cash equivalents

<b>Item</b>	<b>2014</b> <b>RMB</b> <b>million</b>	<b>2013</b> <b>RMB</b> <b>million</b>	<b>2012</b> <b>RMB</b> <b>million</b>
1. Cash	17,387	23,591	15,350
Incl.: Cash on hand	1	1	1
Bank deposit readily available for payment	17,335	23,539	15,298
Other monetary fund readily available for payment	51	51	51
2. Closing balance of cash and cash equivalents	17,387	23,591	15,350

**XV. FINANCIAL STATEMENTS APPROVAL**

The financial statements have been approved by the board of directors on 16 April, 2015. .

China Petrochemical Corporation

**ISSUER**

**Sinopec Group Overseas Development (2015) Limited**

Commerce House, Wickhams Cay 1, P.O. Box 3140  
Road Town, Tortola  
British Virgin Islands VG1110  
British Virgin Islands

**GUARANTOR**

**China Petrochemical Corporation**

22 Chaoyangmen North Street, Chaoyang District  
Beijing, China  
+86(10) 5996 9290

**TRUSTEE**

**Citicorp International Limited**

50/F Citibank Tower,  
Citibank Plaza,  
3 Garden Road, Central  
Hong Kong

**PAYING AGENT, TRANSFER AGENT  
AND REGISTRAR**

**Citibank N.A., London Branch**

c/o Citibank, N.A., Dublin, DUB-01-11  
Ground Floor, 1 North Wall Quay Dublin 1  
Ireland

**LEGAL ADVISERS TO THE ISSUER AND GUARANTOR**

*as to United States and  
Hong Kong Law*

*as to PRC law*

*as to British Virgin Islands law*

**Skadden, Arps, Slate,  
Meagher & Flom**

42/F Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

**Haiwen & Partners**

20/F, Fortune Finance Center  
5 Dong San Huan Central Road  
Chaoyang District  
Beijing 100020  
China

**Conyers Dill & Pearman**

2901 One Exchange Square  
8 Connaught Place, Central  
Hong Kong

**LEGAL ADVISERS TO THE INITIAL PURCHASERS**

*as to United States Law*

**Davis Polk & Wardwell**

18th Floor, The Hong Kong Club Building  
3A Chater Road  
Hong Kong

**LEGAL ADVISERS TO THE TRUSTEE, PAYING AGENT,  
TRANSFER AGENT AND REGISTRAR**

**Davis Polk & Wardwell**

18th Floor, The Hong Kong Club Building  
3A Chater Road  
Hong Kong

**INDEPENDENT AUDITORS**

**Grant Thornton**

4/F, Scitech Place, Jianguomen Wai Avenue  
Beijing, China



**CHINA PETROCHEMICAL CORPORATION**  
**中国石油化工集团公司**