CHINA PETROLEUM & CHEMICAL CORP
Form 20-F
April 20, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

£ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

£ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

DATE OF EVENT REQUIRING THIS SHELL COMPANY REPORT ……………….

FOR THE TRANSACTION PERIOD FORM ____________ TO __________

COMMISSION FILE NUMBER 1-15138

CHINA PETROLEUM & CHEMICAL CORPORATION
(Exact name of Registrant as specified in its charter)

The People's Republic of China
(Jurisdiction of incorporation or organization)

22 Chaoyangmen North Street
Chaoyang District, Beijing, 100728
The People's Republic of China
(Address of principal executive offices)

Mr. Huang Wensheng
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Chaoyang District, Beijing, 100728
The People's Republic of China
Tel: +86 (10) 5996 0028
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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12 (b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered
American Depositary Shares, each representing 100 H Shares of par value RMB 1.00 per share	New York Stock Exchange, Inc.
H Shares of par value RMB 1.00 per share	New York Stock Exchange, Inc.*

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* Not for trading, but only in connection with the registration of American Depository Shares.
Securities registered or to be registered pursuant to Section 12 (g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

H Shares, par value RMB 1.00 per share	25,513,438,600
A Shares, par value RMB 1.00 per share	95,557,771,046

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No__

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes __ No X

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No__

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files)*

Yes__ No__

*This requirement does not apply to the registrant in respect of this filing.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ___	International Financial Reporting Standards X as issued by the International Accounting Standards Board	Other ___

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17__ Item 18__

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No X

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. *

Yes__ No__

*This requirement does not apply to the registrant in respect of this filing.

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CERTAIN TERMS AND CONVENTIONS

Definitions

Unless the context otherwise requires, references in this annual report to:

- “Sinopec Corp.”, “we”, “our” and “us” are to China Petroleum & Chemical Corporation, a PRC joint stock limited company and its subsidiaries;
- “Sinopec Group Company” are to our controlling shareholder, China Petrochemical Corporation, a PRC limited liability company;
- “Sinopec Group” are to the Sinopec Group Company and its subsidiaries other than Sinopec Corp. and its subsidiaries;
- “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” are to Renminbi, the currency of the PRC;
- “HK$” are to Hong Kong dollar, the currency of the Hong Kong Special Administrative Region of the PRC; and
- “US$” are to US dollars, the currency of the United States of America.

Conversion Conventions

Unless otherwise specified, conversions of crude oil from tonnes to barrels are made at a rate of one tonne to 7.35 barrels for crude oil we purchase from external sources, one tonne to 7.10 barrels for crude oil we produced domestically and one tonne to 7.21 barrels for crude oil we produced overseas, representing the American Petroleum Institute (API) gravity of the respective source of crude oil. Conversions of natural gas from cubic meters to cubic feet are made at a rate of one cubic meter to 35.31 cubic feet; and 6,000 cubic feet of natural gas is converted to one BOE.

Glossary of Technical Terms

Unless otherwise indicated in the context, references to:

- “BOE” are to barrels-of-oil equivalent.
- “primary distillation capacity” are to the crude oil throughput capacity of a refinery’s crude oil distillation units, calculated by estimating the number of days in a year that such crude oil distillation units are expected to operate, excluding downtime for regular maintenance, and multiplying that number by the amount equal to the units’ optimal daily crude oil throughput.
- “rated capacity” are to the output capacity of a given production unit or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that such production unit is expected to operate, excluding downtime for regular maintenance, and multiplying that number by an amount equal to the unit’s optimal daily output or throughput, as the case may be.

CURRENCIES AND EXCHANGE RATES

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to US dollars were made at the averages of mid-point exchange rate of Renminbi as published by the PRC State Administration of Foreign Exchange (SAFE).

The following table sets forth noon buying rate for US dollars in Renminbi for the periods indicated, as provided by the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or US dollar amounts could be converted into US dollars or Renminbi, as the case may be, at any particular rate, the rates below or at all. On April 13, 2016, the noon buying rate was RMB 6.4768 to US$1.00.

	Noon Buying Rate(1)			
Period	End	Average(2)	High	Low
	(RMB per US$1.00)			
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
October 2015	6.3180	6.3505	6.3591	6.3180
November 2015	6.3883	6.3640	6.3945	6.3180
December 2015	6.4778	6.4491	6.4896	6.3883
January 2016	6.5752	6.5726	6.5932	6.5219
February 2016	6.5525	6.5501	6.5795	6.5154
March 2016	6.4480	6.5027	6.5500	6.4480
April 2016 (through April 13, 2016)	6.4768	6.4713	6.4810	6.4580

(1) The exchange rates reflect those set forth in the H.10 statistical release of the U.S. Federal Reserve Board.

(2) Annual averages are determined by averaging the rates on the last business day of each month during the relevant period. Monthly averages are calculated using the average of the daily rates during the relevant period.

FORWARD-LOOKING STATEMENTS

This annual report includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements. These forward-looking statements address, among others, such issues as:

- amount and nature of future exploration and development,
- future prices of and demand for our products,
- future earnings and cash flow,
- development projects and drilling prospects,
- future plans and capital expenditures,
- estimates of proved oil and gas reserves,
- exploration prospects and reserves potential,
- expansion and other development trends of the petroleum and petrochemical industry,
- production forecasts of oil and gas,
- expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,
- expansion and growth of our business and operations, and
- our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in “Item 3. Key Information — Risk Factors” and the following:

- fluctuations in crude oil prices,
- fluctuations in prices of our products,
- failures or delays in achieving production from development projects,
- potential acquisitions and other business opportunities,
- general economic, market and business conditions, and
- other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this Form 20-F. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

The selected consolidated statement of income data (except per ADS data) and consolidated cash flows data for the years ended December 31, 2013, 2014 and 2015, and the selected consolidated balance sheet data as of December 31, 2014 and 2015 are derived from, and should be read in conjunction with, the audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of income data and consolidated cash flows data for the years ended December 31, 2011 and 2012 and the selected consolidated balance sheet data as of December 31, 2011, 2012 and 2013 are derived from our audited consolidated financial statements which are not included elsewhere in this annual report.

Moreover, the selected financial data should be read in conjunction with our consolidated financial statements and "Item 5. Operating and Financial Review and Prospects" included elsewhere in this annual report. Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(RMB in millions, except per share, per ADS data and number of shares)				
Consolidated Statement of Income Data:					
Operating revenues	2,505,683	2,786,045	2,880,311	2,825,914	2,018,883
Operating expenses	(2,400,153)	(2,687,383)	(2,783,526)	(2,752,427)	(1,961,855)
Operating income	105,530	98,662	96,785	73,487	57,028
Earnings before income tax	104,565	90,642	95,052	65,504	56,277
Tax expense	(26,120)	(23,846)	(24,763)	(17,571)	(12,613)
Net income attributable to equity shareholders of the Company	73,225	63,879	66,132	46,466	32,438
Basic earnings per share(1)	0.650	0.566	0.570	0.398	0.268
	65.00	56.62	56.96	39.77	26.82

Basic earnings per ADS(1)					
Diluted earnings per share(1)	0.625	0.545	0.534	0.397	0.268
Diluted earnings per ADS(1)	62.46	54.46	53.41	39.74	26.82
Cash dividends declared per share	0.177	0.231	0.244	0.240	0.150
Segment Operating Income/(Loss)					
Exploration and production	71,631	70,054	54,793	47,057	(17,418)
Refining	(35,780)	(11,444)	8,599	(1,954)	20,959
Marketing and distribution	44,696	42,652	35,143	29,449	28,855
Chemicals	26,732	1,178	868	(2,181)	19,682
Corporate and others	(2,640)	(2,443)	(3,412)	(1,063)	384
Elimination of inter-segment sales	891	(1,335)	794	2,179	4,566
Operating income	105,530	98,662	96,785	73,487	57,028
Shares					
Basic weighted average number of A and H shares	112,713,299,453	112,853,724,741	116,102,910,373	116,822,487,451	120,852,547,200
Diluted weighted average number of A and H shares	116,733,935,215	118,412,133,133	121,858,818,276	117,242,396,710	120,852,547,200

	As of December 31,				
	2011	2012	2013	2014	2015
	(RMB in millions)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	24,647	10,456	15,046	9,355	67,824
Total current assets	342,755	365,015	373,010	360,144	332,405
Total non-current assets	794,423	892,929	1,009,906	1,091,224	1,110,724
Total assets	1,137,178	1,257,944	1,382,916	1,451,368	1,443,129
Total current liabilities	(444,240)	(513,373)	(571,822)	(604,257)	(462,642)
Short-term debts and loans from Sinopec Group Company and its affiliates (including current portion of long-term debts)	(80,373)	(115,982)	(163,870)	(178,148)	(115,446)
Long-term debts and loans from Sinopec Group Company and its affiliates (excluding current portion of long-term debts)	(154,457)	(162,116)	(145,590)	(150,932)	(139,746)
Total equity attributable to equity shareholders of the Company	(472,328)	(510,914)	(568,803)	(593,041)	(674,029)
Total equity	(507,344)	(548,036)	(621,626)	(645,577)	(784,219)

	Year Ended December 31,				
	2011	2012	2013	2014	2015
	(RMB in millions)				
Statement of Cash Flow and Other Financial Data:					
Net cash generated from operating activities	150,622	142,380	151,893	148,347	165,818
Net cash (used in)/generated from financing activities	(2,516)	5,628	31,519	(21,421)	9,310
Net cash used in investing activities	(140,449)	(162,197)	(178,740)	(132,633)	(116,952)
Capital expenditure					
Exploration and production	62,050	79,071	105,311	80,196	54,710
Refining	25,767	32,161	26,064	27,957	15,132
Marketing and distribution	30,387	31,723	29,486	26,989	22,115
Chemicals	16,980	23,616	19,189	15,850	17,471
Corporate and others	2,488	2,397	5,076	3,648	2,821
Total	137,672	168,968	185,126	154,640	112,249

(1) Basic earnings per share have been computed by dividing net income attributable to equity shareholders of our company by the weighted average number of shares in issue. Basic and diluted earnings per ADS have been computed as if all of our issued or potential ordinary shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 shares.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Relating to Our Business Operation

We are exposed to risks associated with price fluctuations of crude oil and refined petroleum products.

We consume a large amount of crude oil to produce our refined petroleum products and petrochemical products. Increases in crude oil prices may result in cost inflation, and high prices may also reduce demand for our products which might adversely affect our profitability. Decreases in crude oil and refined product prices may cause us to incur impairment to our investment and assets. A prolonged period of oil price drop may impact our profit and ability to maintain our long-term investment projects. In addition, while we try to adjust the sale prices of our products to track international crude oil price fluctuations, our ability to pass on the increased cost resulting from crude oil price increases to our customers may be limited, and is dependent on international and domestic market conditions as well as the PRC government's price control policies over refined petroleum products. For instance, the PRC government could exercise price control over refined petroleum products when international crude oil prices experience a sustained rise or become significantly volatile. As a result, our results of operations and financial condition may be materially affected by the fluctuation of crude oil and refined petroleum 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. 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 reservoirs might be discovered. Exploring for, developing and acquiring reserves is highly risky and capital intensive. The fluctuation in the prices of crude oil and natural gas will impact the base of our proved oil or natural gas reserves. Without reserve additions through further exploration and development or acquisition activities, or if the prices of crude oil and natural gas fall sharply, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

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

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

We purchase a significant portion of crude oil and other feedstock from outside suppliers located in different countries and regions in the world. In 2015, approximately 83.7% of the crude oil required for our refinery business was sourced from international suppliers, and an insignificant amount is from countries or regions that are on the sanction list published and administered by the Office of Foreign Assets Control, or OFAC, of the US Department of Treasury, including 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 and economic risks associated with these countries and areas. If one or more of our material supply contracts were terminated or disrupted 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.

Our business faces operation risks and natural disasters that may cause significant property damages, 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 products 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 (HSE) 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, inventory and potential third party liability, but our insurance coverage may not be sufficient to cover all the financial losses caused by the operation risks and natural disasters. Significant operating hazards and natural disasters may cause interruption to our operations, property or environmental damages as well as personal injuries, and each of these incidents could have a material adverse effect on our financial condition and results of operations.

The oil and natural gas reserves data in this annual report 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. 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 exploration, development and production activities and our refining and petrochemical business require substantial expenditure and investments and our plans for and ability to make such expenditures and investments are subject to various risks.

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

- ability to generate sufficient cash flows from operations to finance its 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 its ability to influence or adjust plans for exploration and development related expenditures is limited under joint operating agreements for those projects in which it has partners;
- government approvals required for exploration and development-related expenditures and investments in jurisdictions in which it conducts business; and
- economic, political and other conditions in jurisdictions in which it conducts business.

We intend to expand our exploration and production activities and, from time to time, construct new and/or revamp existing refining and petrochemical facilities, which require substantial capital expenditures and investments, 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 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 non-conventional 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.

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

As the international society has reach consensus on the importance and urgency of addressing climate change, the oil and gas industry in which we operate is drawing increasing concerns about global climate change in recent years. A number of international, national and regional measures to limit greenhouse gas emissions have been enacted. The implementation of such measures in a number of countries and other potential legislation limiting emissions could affect the global demand for fossil fuels. If China or other countries in which we operate or desire to operate enact new laws that focus on limiting greenhouse gas emissions, it could result in substantial capital expenditure from compliance with these laws, and revenue generation and strategic growth opportunities could also be adversely impacted. In November 2014, China and the United States made joint announcement against the threat of climate change, whereby China undertook to peak CO2 emissions around 2030 or earlier if possible, and to increase the non-fossil fuel share of all energy to around 20 percent by 2030. Following the pledge, the National Development and Reform Commission of China (NDRC) adopted the Provisional Measures on the Management of Carbon Emission Trading on December 10, 2014. In December 2015, 195 nations at the United Nations climate change conference in Paris adopted the Paris Agreement, for implementation after 2020. The Paris Agreement will place binding commitments on all signing parties and may lead to more stringent national and regional measures in the near future. These measures may impose more strict standards on carbon emission, increase demand for competing energy alternatives or products with lower-carbon intensity, and affect the sales and specifications of our products.

Our overseas businesses may be adversely affected by changes of overseas government policies and business environment.

We have operations and assets and may seek new opportunities in various countries and regions, including countries in Africa, South America and Central Asia and certain other regions, some of which are deemed to be subject to a high degree of political risk. These countries have experienced and/or may experience in future political instability, changes to the regulatory environment, changes in taxation and foreign exchange controls, frequent disease outbreaks and deterioration in social security. Any of these conditions occurring could disrupt or curtail our operations or development activities. These may in turn cause production to decline, limit our ability to pursue new opportunities, affect the recoverability of our assets or cause us to incur additional costs, particularly due to the long-term nature of many of our projects and significant capital expenditure required.

We may be classified as a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States investors in the H shares or ADSs.

Depending upon the value of our assets, which may be determined based, in part, on the market price of our H shares or ADSs, and the nature of our assets and income over time, we could be classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. Based on our income and assets and the market price of our H shares or ADSs, we do not believe that we were a PFIC for the current taxable year ended December 31, 2015 and do not anticipate becoming a PFIC or in the foreseeable future. Because PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of our income and the value of our active versus passive assets for that year, there can be no assurance that we will not be a PFIC for any future taxable year. The overall level of our passive assets will be affected by how, and how quickly, we spend our liquid assets. Under circumstances where gross income from activities that produce passive income significantly increase relative to our gross income from activities that produce non-passive income or where we determine not to deploy significant amounts of cash for active purposes, our risk of becoming classified as a PFIC may substantially increase. If we were to be or become classified as a PFIC, a US Holder (as defined in "Item 10. Additional Information – E. Taxation – United States Federal Income Tax Considerations") may incur significantly increased United States income tax on gain recognized on the sale or other disposition of the H shares or ADSs and on the receipt of distributions on the H shares or ADSs to the extent such gain or distribution is treated as an "excess distribution" under the United States federal income tax rules. For more information see "Item 10. Additional Information – E. Taxation— United States Federal Income Tax Considerations."

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 negative influences caused by factors such as the slowdown of world economic development, it is uncertain how soon the world economy can be fully recovered. The Chinese economy has entered the "new normal" stage with more moderate economic growth . Our operations may also be adversely affected by factors such as some countries' trade protection policies which may affect the export and some regional trade agreements which may affect the import.

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

Most of our revenues are attributable to sales of refined petroleum products and petrochemical 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 influence of the cyclicality of global markets.

We face strong competition from domestic and foreign competitors.

Among our competitors, some are major integrated petroleum and petrochemical companies within and outside China, which have recently become more significant participants in the petroleum and petrochemical industry in China. In 2015, the PRC government gradually opened the wholesale market of crude oil and refined petroleum products to new market entrants including local refineries. As a result, we face more competition in both crude oil and refined petroleum product markets. We also expect to face competition in both domestic and international petrochemical product market as a result of our domestic and international competitors' increasing production capacity. Increased competition may have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Controlling Shareholder

We engage in related party transactions with Sinopec Group from time to time which may create potential conflict of interest.

We have engaged from time to time and will continue to engage in a variety of transactions with Sinopec Group, which provides us with a number of services, including, but not limited to, ancillary supply, engineering, maintenance, transport, lease of land use right, lease of buildings, as well as educational and community services. The nature of our transactions with Sinopec Group is governed by a number of service and other contracts between Sinopec Group and us. We have established various schemes in those agreements so that these transactions, when entered into, are under terms that are at arm's length. However, we cannot assure you that Sinopec Group Company or any of its members would not take actions that may favor its interests or its other subsidiaries' interests over ours.

We are controlled by Sinopec Group Company, our ultimate controlling shareholder, whose interest in certain businesses compete or are likely to compete with our business.

Sinopec Group Company has interests in certain businesses, such as oil refining, petrochemical producing and overseas exploration and development, which compete or are likely to compete, either directly or indirectly, with our businesses. To avoid the adverse effects brought by the competition between us and Sinopec Group Company to the maximum extent possible, we and Sinopec Group Company have entered into a non-competition agreement. In 2012, we received from Sinopec Group Company an undertaking to avoid its competition with us. For details, please refer to the descriptions under "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders". Notwithstanding the foregoing contractual arrangements, because Sinopec Group Company is our controlling shareholder, Sinopec Group Company may take actions that may conflict with our own interests.

It is possible that the current or future activities of our ultimate controlling shareholder, Sinopec Group Company, or its affiliates in or with certain countries that are the subject of economic sanctions under relevant U.S. laws could result in negative media and investor attention to us and possible imposition of sanctions on Sinopec Group Company, which could materially and adversely affect our shareholders.

Sinopec Group Company undertakes, from time to time and without our involvement, overseas investments and operations in the oil and gas industry, including exploration and production of oil and gas, refining and Liquefied Natural Gas or LNG, and chemical projects. Sinopec Group Company's overseas asset portfolio includes oil and gas development projects in Iran, Sudan and Syria, which countries are targets of U.S. sanctions administrated by OFAC and by the U.S. Department of State. In 2013, Sinopec International Petroleum E&P Hongkong Overseas Limited, a joint venture owned by Sinopec Group Company and us on an equal basis, acquired from Sinopec Group Company 49% interest in Taihu which is engaged in oil and gas exploration, development and production business in Russia. In December 2015, we acquired a 10% shareholding stake in PAO SIBUR Holding (Sibur Holding). Starting from 2014, OFAC imposed economic sanctions against Russia focusing on trading activities involving certain Russia's financial and energy entities. We currently do not believe that our investment in Taihu and our 10% shareholding stake in Sibur Holding will result in any direct sanctions imposed by OFAC. However, events in or relating to Russia, including further trade restrictions and other sanctions, could adversely impact our investment in Russia. In addition, the United States may expand its sanctions regime to include other countries or regions where Sinopec Group Company or its affiliates, including us, may have assets or operations. 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 Sinopec Group Company or its affiliates, including us, in countries or with individuals or entities that are the subject of U.S. sanctions. Similarly, we cannot predict whether U.S. sanctions will be further tightened, or the impact that such actions may have on Sinopec Group Company and us. It is possible that the United States could subject Sinopec Group Company and us to sanctions due to these activities. 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. These investors may not wish to invest, and may divest their investment, in us because of our relationship with Sinopec

Group Company and its investments and activities in those OFAC sanctioned countries. It is possible that, as a result of activities by Sinopec Group Company or its affiliates in countries that are the subject of U.S. sanctions, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors' perception of our company.

Risks Relating to the PRC

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 the licenses to explore and produce crude oil and natural gas, granting the licenses to market and distribute crude oil and refined petroleum products, regulating the upper limit of the retail prices for gasoline and diesel; collecting special oil income levies, deciding import and export quotas and procedures, setting safety, environmental and quality standards, and formulating policies to save 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 in resource tax and environmental tax, which could impact our production and operations. Such control mechanisms may have material effects on our operations and profitability.

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

The PRC governmental authorities, from time to time, audit or inspect our ultimate controlling shareholder. We cannot predict the impact if any, of their outcome on our reputation, business and financial condition as well as the trading prices of our ADSs and H shares.

The PRC governmental authorities, from time to time, perform audits, inspections, inquiries or similar actions on state-owned companies, such as Sinopec Group Company, our ultimate controlling shareholder. Such inspections are not conducted on a regular basis with specific targets, and therefore we cannot predict the outcome of these governmental activities. If, as a result of such audits, inspections or inquiries, (i) material irregularities are found within Sinopec Group Company or us or our employees or (ii) Sinopec Group Company or we become the target of any negative publicity, our reputation, business and financial condition as well as the trading prices of our ADSs and H shares may be materially and negatively impacted.

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;
- the government, at its discretion, to close any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage; and

- litigations and liabilities arising from pollutions and damages to the environment and public interests.

Our production 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.

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

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 government authorities and the general economic condition 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.

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;
- payment of the principals and interests of bonds issued overseas; and
- payment of any cash dividends declared in respect of the H shares (including ADS).

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 significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange. 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 and when the PRC government will allow free conversion of Renminbi.

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

Renminbi exchange rate fluctuation on the purchase cost of crude oil could largely be offset by the corresponding fluctuation in the prices of domestic refined oil products and chemical products.

Risks relating to enforcement of shareholder rights; Mandatory arbitration.

Currently, the primary sources of shareholder rights are our articles of association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange, which, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. In general, their provisions for protection of shareholder's rights and access to information are different from those applicable to companies incorporated in the United States, the United Kingdom and other Western countries. In addition, the mechanism for enforcement of rights under the corporate framework to which we are subject may also be relatively undeveloped and untested. To our knowledge, there has not been any published report of judicial enforcement in the PRC by H share shareholders of their rights under constituent documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the PRC or Hong Kong regulatory provisions applicable to PRC joint stock limited companies. We cannot guarantee that our shareholders will enjoy protections that they may be entitled in other jurisdictions.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries, and therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may not be assured. Our articles of association as well as the Listing Rules of the Hong Kong Stock Exchange provide that most disputes between holders of H shares and us, our directors, supervisors, officers or holders of domestic shares, arising out of the articles of association or the PRC Company Law concerning the affairs of our company, are to be resolved through arbitration, at the election of the claimant, by arbitration organizations in Hong Kong or the PRC, rather than through a court of law. On June 18, 1999, an arrangement was made between Hong Kong and the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. We are uncertain as to the outcome of any action brought in China to enforce an arbitral award granted to shareholders.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board, or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms, is currently not inspected by PCAOB.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The lack of PCAOB inspections in China may prevent PCAOB from regularly evaluating our auditor's audits and quality control procedures. The inability of PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Additional remedial measures imposed on certain PRC-based accounting firms, including our independent registered public accounting firm, in proceedings brought by the SEC alleging the firms' failure to meet specific criteria, could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against the "Big Four" accounting firms in China, including our independent registered public accounting firm, alleging that these firms had refused to produce audit work papers and other documents related to certain other China-based companies whose securities are publicly traded in the United States. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and barring these firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until it is endorsed by the SEC. In February 2015, each of the four PRC-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the China Securities Regulatory

Commission (CSRC) in response to future document requests by the SEC made through the CSRC. If the firms fail to comply with the documentation production procedures that set forth in the settlement agreement or if these required information fails to be provided to the SEC by the CSRC for reasons out of these firms' control, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings.

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about the proceedings against these audit firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delay or abandonment of this offering, delisting of our ADSs from the New York Stock Exchange (NYSE) or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our legal and commercial name is China Petroleum & Chemical Corporation. Our head office is located at 22 Chaoyangmen North Street, Chaoyang District, Beijing 100728, the People's Republic of China, our telephone number is (8610) 5996-0028 and our fax number is (8610) 5996-0386. We have appointed our representative office in the United States, located at 410 Park Avenue, 6/F, New York, NY 10022, USA (telephone number: (212) 759-5085; fax number: (212) 759-6882) as our agent for service of processes for actions brought under the U.S. securities laws.

We were established as a joint stock limited company on February 25, 2000 under the Company Law of the PRC with Sinopec Group Company as the sole shareholder at our inception. Our principal businesses consist of petroleum and petrochemical businesses transferred to us by Sinopec Group Company pursuant to a reorganization agreement. Such businesses include:

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

Sinopec Group Company's continuing activities consist, among other things, of:

- exploring and developing oil and gas reserves overseas;
- operating certain petrochemical facilities and small capacity refineries;
- providing geophysical exploration, and well drilling, survey, logging and downhole operational services;
- manufacturing production equipment and providing equipment maintenance services;
- providing construction services;
- providing utilities, such as electricity and water; and
- providing other operational services including transportation services.

Sinopec Group Company transferred the businesses to us either by transferring its equity holdings in subsidiaries or by transferring their assets and liabilities. Sinopec Group Company also agreed in the reorganization agreement to transfer to us its exploration and production licenses and all rights and obligations under the agreements in connection with its core businesses transferred to us. The employees relating to these assets were also transferred to us.

In order to expand our core businesses, prevent competition between us and members of Sinopec Group and reduce related party transactions, between 2001 and 2009 we have acquired Sinopec National Star Petroleum Company, Sinopec Group Maoming Petrochemical Company, Tahe Oilfield Petrochemical Factory and Xi'an Petrochemical Main Factory, certain Petrochemical and Catalyst Assets, certain Refinery Plants and certain service stations, certain Oil Production Plants, Sinopec Hainan and certain downhole operation assets, 100% equity interest of Sinopec Qingdao Petrochemical Company Limited and certain other assets relating to exploration and production, refining and marketing and distribution segments and assets of certain research institutes from Sinopec Group Company. We have also sold and disposed of certain auxiliary assets and chemical assets. In addition, we completed the privatization of Beijing Yanshan Petrochemical Co., Ltd. and Sinopec Zhenhai Refinery and Chemicals Co., Ltd. and the tender offers for the acquisition of publicly-held A-shares of four subsidiaries formerly listed on stock exchanges in China, namely Sinopec Qilu Petrochemical Co., Ltd., Sinopec Yangzi Petrochemical Co., Ltd., Sinopec Zhongyuan Petroleum Co., Ltd., and Shengli Oil Field Dynamic Co., Ltd.

In 2011, we issued RMB 23 billion convertible bonds which are convertible into our A shares. As of December 31, 2014, an aggregate of 1,832,955,041 A shares have been converted from these convertible bonds. As of February 17, 2015, an aggregate of 4,623,769,047 A shares have been converted from these convertible bonds. On the same date, we exercised our redemption right and redeemed all the outstanding amount of these convertible bonds.

In 2012, we received from Sinopec Group Company an undertaking to avoid its competition with us. For details, please refer to the descriptions under "Item 7. Major Shareholders and Related Party Transactions – A. Major Shareholders".

On February 14, 2013, we completed a placing of an aggregate of 2,845,234,000 new H shares at a price of HK$8.45 per share. The net proceeds from such placing are approximately HK$23.97 billion.

In 2013, Sinopec International Petroleum E&P Hongkong Overseas Limited, a joint venture owned by Sinopec Group Company and us on an equal basis, acquired from Sinopec Group Company (i) 50% interest in Caspian Investment Resources Ltd. (CIR), (ii) 49% interest in Taihu Limited (Taihu), and (iii) 50% interest in Mansarovar Energy Colombia Ltd. (Mansarovar), for a cash consideration of US$2.711 billion in the aggregate. Each of CIR, Taihu and Mansarovar is engaged in oil and gas exploration, development and production business, with CIR based in Kazakhstan, Taihu in Russia and Mansarovar in Colombia.

On February 19, 2014, our board of directors unanimously approved a proposal to restructure our marketing and distribution business and to diversify the ownership of this segment by way of introducing private capital investments. In April 2014, our ownership, management and control of the assets in the marketing and distribution segment have been transferred to Sinopec Marketing Co., Ltd., one of our wholly owned subsidiaries. On September 12, 2014, Sinopec Marketing Co., Ltd. entered into a capital injection agreement with 25 domestic and foreign investors, pursuant to which the investors will subscribe for certain equity interest in Sinopec Marketing Co., Ltd. As of March 6, 2015, the 25 investors have made an aggregate capital contribution of RMB 105.04 billion, representing 29.58% equity interest in Sinopec Marketing Co., Ltd.

On September 12, 2014, in connection with our plan to spin off Sinopec Yizheng Chemical Fibre Company Limited (Yizheng Chemical), in which we originally owned 40.25% equity interest, we entered into a disposal agreement and a share repurchase agreement with Yizheng Chemical, pursuant to which Yizheng Chemical agreed to transfer to us all of its assets and liabilities. As consideration, our 40.25% equity interest in Yizheng Chemical was repurchased and cancelled by Yizheng Chemical. Subsequently, through a series of inter-group company restructuring steps, Yizheng Chemical was spun off from us in December 2014.

On October 30, 2014, Sinopec Overseas Investment Holdings Limited (SOI) and Sinopec Chemical Commercial Holdings Company Limited (SCC), two of our wholly-owned subsidiaries, entered into acquisition agreements with two subsidiaries of Sinopec Group Company, pursuant to which SOI and SCC acquired 99% and 1% membership interests in Sinopec Century Bright Capital Investment (Netherlands) Cooperation U.A. (COOP), respectively, from the two subsidiaries of Sinopec Group Company with an aggregate consideration of US$562 million. Upon completion of the acquisition, we indirectly held 100% interest in COOP, which holds 37.5% interest in Yanbu Aramco Sinopec Refining Company (YASREF) Limited (YASREF). The remaining 62.5% interest in YASREF is held by Saudi Arabian Oil Company. YASREF is mainly engaged in the production and sale of gasoline and diesel oil, petroleum coke and sulfur, benzene and other products in Saudi Arabia and has a designed processing capability of 3,890 thousand barrels per day.

On July 8, 2015, Sinopec Group Company informed us that, it proposed to increase its shareholding in the Company through acquisitions of our ordinary shares on the secondary market in its own name or through other concerting parties within 12 months commencing on July 8, 2015 (Increase Period). The aggregate amount of such increase in shareholding will not exceed 2% (inclusive of the shares acquired on July 8, 2015) of our issued and outstanding shares. As of July 9, 2015, Sinopec Group Company had increased its shareholding in the Company by way of acquiring 72,000,000 A shares during the Increase Period, representing approximately 0.06% of issued and outstanding shares. Immediately following the shareholding increase, Sinopec Group Company directly and indirectly held 86,345,821,101 shares of the Company, representing approximately 71.32% of our issued and outstanding shares. Sinopec Group Company undertakes not to reduce its shareholding in the Company during the Increase Period and the statutory holding period.

B. BUSINESS OVERVIEW

Exploration and Production

Overview

We currently explore for, develop and produce crude oil and natural gas in a number of areas in China and overseas. As of December 31, 2015, we held 202 production licenses in China, with an aggregate acreage of 25,748 square kilometers and with terms ranging from 10 to 80 years. Our production licenses may be renewed upon our application at least 30 days prior to the expiration date, which are renewable for unlimited times. During the term of our production license, we pay an annual production license fee of RMB 1,000 per square kilometer.

As of December 31, 2015, we held 269 exploration licenses in China for various blocks in which we engaged in exploration activities, with an aggregate acreage of approximately 857,421 square kilometers and with the maximum term of seven years. Our exploration licenses may be renewed upon our application at least 30 days prior to the expiration date, with each renewal for a maximum two-year term. We are obligated to make an annual minimum exploration investment in each of the exploration blocks which we obtained the exploration licenses. We are also obligated to pay an annual exploration license fee ranging from RMB 100 to RMB 500 per square kilometer. Under the PRC laws and regulations, however, we are entitled for reduction and exemption of exploration license fee for exploration in the western region, northeast region and offshore of China.

As of December 31, 2015, our overseas subsidiary held two production licenses, with an aggregate acreage of 323 square kilometers. It currently does not have exploration licenses. Our overseas equity-accounted investments held 72 production licenses, with an aggregate acreage of 4,660 square kilometers, and 5 exploration and licenses.

Properties

We currently operate 12 oil and gas production fields in China, each of which consists of many oil and gas producing fields and blocks.

Shengli production field is our most important crude oil production field. It consists of 73 producing blocks of various sizes extending over an area of 2,549 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 2015, Shengli production field produced 192 million barrels of crude oil and 16.12 billion cubic feet of natural gas, with an average daily production of 535 thousand BOE.

As of December 31, 2015, the total acreage of our oil and gas producing fields and blocks in China was 10,829 square kilometers, including 8,267 square kilometers of developed acreage, all of which were net developed acreage; and 2,562 square kilometers of gross undeveloped acreage, all of which were net undeveloped acreage.

As of December 31, 2015, the total acreage of our oil and gas producing fields and blocks of our overseas subsidiary was 323 square kilometers, including 169 square kilometers of developed acreage, of which 30 square kilometers were net developed acreage; and 153 square kilometers of gross undeveloped acreage, of which 8 square kilometers were net undeveloped acreage.

As of December 31, 2015, the total acreage of our oil and gas producing fields and blocks of our overseas equity-accounted investments was 1,737 square kilometers, including 1,624 square kilometers of developed acreage, of which 1,484 square kilometers were net developed acreage; and 113 square kilometers of gross undeveloped acreage, of which 113 square kilometers were net undeveloped acreage.

Oil and Natural Gas Reserves

As of December 31, 2015, our estimated proved reserves of crude oil and natural gas in China were 3,160.3 million BOE (including 1,901.9 million barrels of crude oil and 7,550.7 billion cubic feet of natural gas), and our estimated proved reserves of crude oil and natural gas outside of China, which included a share of the estimated proved reserves of our equity-accounted investments, were 344.2 million BOE. 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. There may be material changes to our proved reserves in connection with our discovery in exploration projects in the Fuling shale gas field after January 1, 2016.

The following tables set forth our proved developed and undeveloped crude oil and natural gas reserves by region as of December 31, 2015.

Crude Oil Proved Reserves	As of December 31, 2015 (in millions of barrels)
Developed	
Subsidiaries	
China	
Shengli	1,326
Others	375
Overseas(1)	52
Subtotal	1,753
Equity-accounted investments	
China	0
Overseas(2)	260
Subtotal	260
Total Developed	2,013
Undeveloped	
Subsidiaries	
China	
Shengli	116
Others	85
Overseas(1)	3
Subtotal	204
Equity-accounted investments	
China	0
Overseas(2)	26
Subtotal	26
Total Undeveloped	230
Total Proved Reserves	2,243

Natural Gas Proved Reserves	As of December 31, 2015 (in billions of cubic feet)
Developed	
Subsidiaries	
China	
Puguang	2,470
Fuling	1,016
Others(1)	2,953
Overseas	0
Subtotal	6,439

Equity-accounted investments	
China	0
Overseas(2)	18
Subtotal	18
Total Developed	6,457
Undeveloped	
Subsidiaries	
China	
Puguang	
Fuling	181
Others	931
Overseas(1)	0
Subtotal	1,112
Equity-accounted investments	
China	0
Overseas(2)	1
Subtotal	1
Total Undeveloped	1,113
Total Proved Reserves	7,570

(1) In 2010, we acquired from Sinopec Group Company part of its interests in Angola Block 18. The proved reserves amount of our overseas subsidiary is the net reserves amount of SSI after deducting the government's amount-sharing. We hold a 55% equity interests in SSI.
(2) In 2013, a joint venture, owned by Sinopec Group Company and us on an equal basis, acquired from Sinopec Group Company (i) 50% interest in CIR, (ii) 49% interest in Taihu, and (iii) 50% interest in Mansarovar. The proved reserves amount reflects the joint venture's shares in CIR, Taihu and Mansarovar.

As of December 31, 2015, approximately 230 million barrels of our crude oil proved reserves and 1,113 billion cubic feet of our natural gas proved reserves were classified as proved undeveloped reserves in China and overseas, among which approximately 2.2 million barrels of our crude oil proved reserves and 32.6 billion cubic feet of our natural gas proved reserves in China were classified as proved undeveloped reserves for more than five years, due to international factors. These reserves are mostly located in our Shanghai branch.

During 2015, a total of 1,092 wells were drilled by us in China and 150 wells were drilled overseas. We converted 91.3 million barrels of proved undeveloped crude oil reserves and 384 billion cubic feet of proved undeveloped natural gas reserves into proved developed reserves in 2015. Total capital expenditure incurred in converting proved undeveloped reserves into proved developed reserves amounted to RMB 21.229 billion, including RMB 20.9 billion and RMB 0.329 billion incurred in connection with our operations in China and overseas, respectively, in 2015.

We manage our reserves estimation through a two-tier management system. The Oil and Natural Gas Reserves Management Committee, or the RMC, at our headquarters level oversees the overall reserves estimation process and reviews the reserves estimation of our company. Each of our Branches has a reserves committee that manages the reserves estimation process and reviews the reserves estimation report at the branches level.

Our RMC is co-led by several of our senior vice presidents and the head of our exploration and production segment. The current chairman of our RMC, Mr. Wang Zhigang, holds a Ph.D. degree in geology from Geology and Geo-physics Research Institute of the China Academy of Science and has over 30 years of experience in the oil and gas industry. The rest of the members of our RMC are all senior management members in charge of exploration and development activities at production bureau level. A majority of our RMC members hold doctor's or master's degrees and our RMC members have an average of 20 years of technical experience in relevant industry fields, such as geology, engineering and economics.

Our reserves estimation is guided by procedural manuals and technical guidance. Initial collection and compilation of reserves information are conducted by different working divisions, including exploration, development, financial and legal divisions, at production bureau level. Exploration and development divisions collectively prepare the initial report on reserves estimation. Together with technical experts, reserves management committees at production bureau level then review to ensure the qualitative and quantitative compliance with technical guidance and accuracy and reasonableness of the reserves estimation. At headquarter level, the RMC is primarily responsible for the management and coordination of the reserves estimation process, review and approval of annual changes and results in reserves estimation and disclosure of our proved reserves. We also engage outside consultants who assist us to be in compliance with the U.S. Securities and Exchange Commission rules and regulations. Our reserves estimation process is further facilitated by a specialized reserves database which is improved and updated periodically.

Oil and Natural Gas Production

In 2015, we produced an average of 1,145.6 thousand BOE per day in China, of which approximately 70.9% was crude oil and 29.1% was natural gas. We produced an average of 147.8 thousand BOE per day overseas, of which 99.4% was crude oil and 0.6% was natural gas.

The following tables set forth our average daily production of crude oil and natural gas sold for the years ended December 31, 2013, 2014 and 2015. The production of crude oil includes condensate.

	Year Ended December 31,		
	2013	2014	2015
	(in thousands of barrels)		
Average Daily Crude Oil Production			
China			
Shengli	540	542	527
Others	312	310	285
Overseas			
Subsidiary(1)	59	42	54
Equity-accounted investments(2)	10	95	92
Total Crude Oil Production	921	989	958

	Year Ended December 31,		
	2013	2014	2015
	(in millions of cubic feet)		
Average Daily Natural Gas Production			
China			
Puguang	784	761	530
Fuling	14	105	306
Others	1,010	1,085	1,116
Overseas	-	11	11
Total Natural Gas Production	1,808	1,962	1,963

(1) The average daily production of our overseas subsidiary is the net production of SSI after deducting the government's sharing of production. We hold 55% equity interest of SSI.

(2) The average daily production of our equity-accounted investments reflects our shares of the production in CIR, Taihu and Mansarovar, starting from our acquisition in 2013 of (i) 50% interest in CIR, (ii) 49% interest in Taihu, and (iii) 50% interest in Mansarovar, through a joint venture owned by Sinopec Group Company and us.

Lifting Cost & Realized Prices

The following table sets forth our average lifting costs per BOE of crude oil produced, average sales prices per barrel of crude oil and average sales prices per thousand cubic meters of natural gas for the years ended December 31, 2013, 2014 and 2015.

	Weighted Average	China	Overseas(1)
		(RMB)	
For the year ended December 31, 2015			
Average petroleum lifting cost per BOE	109.70	111.56	70.20
Average realized sales price			
Per barrel of crude oil	283.72	280.74	316.15
Per thousand cubic meters of natural gas	1,519.83	1,519.83	-
For the year ended December 31, 2014			
Average petroleum lifting cost per BOE	113.10	113.40	105.07
Average realized sales price			
Per barrel of crude oil	554.71	552.73	597.24
Per thousand cubic meters of natural gas	1,598.99	1,598.99	-
For the year ended December 31, 2013			

Average petroleum lifting cost per BOE	112.56	113.63	91.27
Average realized sales price			
Per barrel of crude oil	590.86	584.35	671.17
Per thousand cubic meters of natural gas	1,359.23	1,359.23	-

(1) The exchange rates we used for overseas data in this table was the average exchange rates for each year ended December 31, 2013, 2014 and 2015, which were RMB 6.1928 to US$ 1.00, RMB 6.1428 to US$1.00, and RMB 6.2284 to US$1.00, respectively.

Exploration and Development Activities

In the low oil price environment of 2015, we strived to optimize the deployment of our exploration and development projects. To manage the oil price fluctuation, we implemented dynamic investment decision-making mechanism and adjusted our production structure by cutting inefficient production capacities with the aim to improve yield. We made remarkable progresses in enhancing the efficiency of our exploration activities, drilled 568 exploratory and development wells in 2015, which improved our year-on-year exploratory success rate and led to a number of new discoveries in Beibu Gulf of the South China Sea, the Sichuan Basin, the Ordos Basin, and the Central Tahe Basin. With respect to development activities, we completed the construction of the first phase of our Fuling project with a production capacity of 5 billion cubic meters per year, made considerable progresses in optimizing development programs in mature fields and focused on the construction and development of production capacity in frontier acreages. In 2015, our production dropped by 1.7% to 471.91 million barrels, with domestic crude oil production down by 4.7%, overseas production up by 6.6%, and natural gas production rose by 2.6%. As compared to the same period in 2014, our proved reserves of crude oil fell while our proved reserves of natural gas increased by 12.3%, mainly due to the signifcant increase of our Fuling shale gas reserves.

The following table sets forth the numbers of our exploratory and development wells, including a breakdown of productive wells and dry wells we drilled during the years ended December 31, 2013, 2014 and 2015.

	Total	China		Overseas	
		Shengli	Others	Subsidiary	Equity-accounted investments
For the year ended December 31, 2015					
Exploratory					
Productive	373	150	223	-	-
Dry	196	73	122	-	1
Development					
Productive	1,950	1,020	781	5	144
Dry	26	18	7	-	1
For the year ended December 31, 2014					