CHINA PETROLEUM & CHEMICAL CORP
Form 6-K
March 25, 2015

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
The Securities Exchange Act of 1934

For the month of March, 2015

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

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

Form 20-F X Form 40-F

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

Yes No X

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

This Form 6-K consists of:

A copy of 2014 annual report of China Petroleum & Chemical Corporation (the "Registrant") filed with the Hong Kong Stock Exchange.

CONTENTS

This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, reserve and other estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 20 March 2015 and unless required by regulatory authorities, the Company undertakes no obligation to update these statements.

COMPANY PROFILE

IMPORTANT NOTICE: THE BOARD OF DIRECTORS, THE BOARD OF SUPERVISORS, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF SINOPEC CORP. WARRANT THAT THERE ARE NO FALSE REPRESENTATIONS, MISLEADING STATEMENTS OR MATERIAL OMISSIONS IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS ANNUAL REPORT. THERE IS NO OCCUPANCY OF NON-OPERATING FUNDS BY THE SUBSTANTIAL SHAREHOLDERS OF SINOPEC CORP.. MR. WANG ZHIGANG, DIRECTOR, DID NOT ATTEND THE TWENTY-THIRD MEETING OF THE FIFTH SESSION OF THE BOARD DUE TO OFFICIAL DUTIES. MR. WANG ZHIGANG AUTHORISED MR. LI CHUNGUANG, DIRECTOR AND PRESIDENT, TO VOTE ON HIS BEHALVES IN RESPECT OF THE RESOLUTIONS PUT FORWARD AT THE MEETING. MR. FU CHENGYU, CHAIRMAN OF THE BOARD OF DIRECTORS, MR. LI CHUNGUANG, DIRECTOR AND PRESIDENT, MR. WANG XINHUA, CHIEF FINANCIAL OFFICER AND MR. WANG DEHUA, HEAD OF THE CORPORATE FINANCIAL DEPARTMENT OF SINOPEC CORP. WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT. THE AUDIT COMMITTEE OF SINOPEC CORP. HAS REVIEWED THE ANNUAL RESULTS OF SINOPEC CORP. FOR THE YEAR ENDED 31 DECEMBER 2014.

THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 OF THE COMPANY PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (“ASBE”) AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) HAVE BEEN AUDITED BY PRICEWATERHOUSECOOPERS ZHONG TIAN LLP AND PRICEWATERHOUSECOOPERS RESPECTIVELY. BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED AUDITOR’S REPORT.

AS APPROVED BY THE 23RD MEETING OF THE FIFTH SESSION OF THE BOARD OF DIRECTORS OF SINOPEC CORP. (THE “BOARD”), THE BOARD RECOMMENDED A FINAL CASH DIVIDEND OF RMB 0.11 (TAX INCLUSIVE) PER SHARE FOR 2014, COMBINING WITH THE INTERIM CASH DIVIDEND OF RMB 0.09 (TAX INCLUSIVE) PER SHARE, THE TOTAL CASH DIVIDEND FOR 2014 WILL BE RMB 0.20 (TAX INCLUSIVE) PER SHARE. THE DIVIDEND PROPOSAL IS SUBJECT TO THE SHAREHOLDERS’ APPROVAL AT THE ANNUAL GENERAL MEETING FOR THE YEAR 2014 (THE “ANNUAL GENERAL MEETING”).

Exploration and Production	Refining	Marketing and Distribution	Chemicals

COMPANY PROFILE

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

Sinopec sets ‘fueling beautiful life’ as its corporate mission, puts ‘people, responsibility, integrity, precision, innovation and win-win’ as its corporate core values, pursues strategies of resources, markets, integration, internationalization, differentiation, and green and low-carbon development, and strives to achieve its corporate vision of building a world leading energy and chemical company.

DEFINITIONS:

In this report, unless the context otherwise requires, the following terms shall have the meaning set out below:
"Sinopec Corp.": China Petroleum & Chemical Corporation;
"The Company": Sinopec Corp. and its subsidiaries;
"China Petrochemical Corporation": our controlling shareholder, China Petrochemical Corporation;
"Sinopec group": China Petrochemical Corporation and its subsidiaries;
RMC: Oil and Natural Gas Reserves Management Committee of the Company;
Sinopec CB: RMB23 billion A share convertible bond issued by Sinopec Corp. in 2011;
CSRC: China Securities Regulatory Commission.

Conversion of crude oil, natural gas and refinery throughput
For domestic production of crude oil, 1 tonne = 7.1 barrels, for overseas production of crude oil. 1 tonne = 7.22 barrels;
For production of natural gas, 1 cubic meter = 35.31 cubic feet;
Refinery throughput is converted at 1 tonne = 7.35 barrels.

PRINCIPAL FINANCIAL DATA AND INDICATORS

1 FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ASBE

(1) Principal financial data

	For the years ended 31 December			
	2014 RMB millions	2013 RMB millions	Change %	2012 RMB millions
Operating income	2,825,914	2,880,311	(1.9)	2,786,045
Operating profit	65,481	96,453	(32.1)	87,926
Profit before taxation	66,481	96,982	(31.5)	90,107
Net profit attributable to equity shareholders of the Company	47,430	67,179	(29.4)	63,496
Net profit attributable to equity shareholders of the Company excluding extraordinary gain and loss	43,238	66,658	(35.1)	61,922
Net cash flow from operating activities	148,347	151,893	(2.3)	143,462

	At 31 December			
Items	2014 RMB millions	2013 RMB millions	Change %	2012 RMB millions
Total assets	1,451,368	1,382,916	4.9	1,238,522
Total liabilities	804,273	759,656	5.9	687,921
Total equity attributable to equity shareholders of the Company	594,483	570,346	4.2	513,374
Total shares (1,000 shares)	118,280,396	116,565,314	1.5	86,820,287

(2) Principal financial indicators

	For the years ended 31 December			
Items	2014 RMB	2013 RMB	Change %	2012 RMB
Basic earnings per share	0.406	0.579	(29.9)	0.562
Diluted earnings per share	0.406	0.543	(25.2)	0.542
Basic earnings per share based on latest total shares*	0.404	0.578	(30.1)	—
Basic earnings per share (excluding extraordinary gain and loss)	0.370	0.574	(35.5)	0.548
Weighted average return on net assets (%)	8.14	12.24	(4.10) percentage points	12.80
Weighted average return (excluding extraordinary gain and loss) on net assets (%)	7.42	12.15	(4.73) percentage points	12.48
Net cash flow from operating activities per share	1.270	1.308	(2.9)	1.272

*: Calculated based on the total shares on 13 March 2015.

	At 31 December			
	2014	2013	Change	2012
Items	RMB	RMB	%	RMB
Net assets attributable to equity shareholders of the Company per share	5.089	4.912	3.6	4.548
Liabilities to assets ratio (%)	55.41	54.93	0. 48 percentage points	55.54

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(3) Extraordinary items and corresponding amounts

Items	For the years ended 31 December (Income)/expenses 2014 RMB millions	2013 RMB millions	2012 RMB millions
(Gain)/loss on disposal of non-current assets	1,622	826	(133)
Donations	125	245	231
Government grants	(3,165)	(2,368)	(2,814)
Gain on holding and disposal of various investments	(4,680)	(210)	(69)
Other non-operating expenses, net	419	771	553
Subtotal	(5,679)	(736)	(2,232)
Tax effect	1,420	184	558
Total	(4,259)	(552)	(1,674)
Equity shareholders of the Company	(4,192)	(521)	(1,574)
Minority interests	(67)	(31)	(100)

(4) Items measured by fair values Unit: RMB millions

Items	Beginning of the year	End of the year	Changes	The influence on the profit of the year
Available-for-sale financial assets	1,964	183	(1,781)	2,317
Derivative financial instruments	2,040	(6,368)	(8,408)	6,978
Embedded derivative component of the convertible bonds	(548)	(3,288)	(2,740)	(4,611)
Total	3,456	(9,473)	(12,929)	4,684

(5) Significant changes of items in the financial statements

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

Items	At 31 December 2014 RMB millions	2013 RMB millions	Increase/(decrease) Amount RMB millions	Percentage (%)	Reasons for change
Cash at bank and on hand	10,100	15,101	(5,001)	(33.1)	Mainly due to the use of cash to make up monetary gap
Bills receivable	13,963	28,771	(14,808)	(51.5)	Mainly due to the decrease in selling price of chemical products, resulting in the decrease of bills receivable, and the increase in endorsement and discount of bills of Chemical Sales Company

Accounts receivable	90,831	68,466	22,365	32.7	Mainly due to the increase of accounts receivable balance from Unipec and other subsidiaries' trade transaction
Other receivables	29,251	13,165	16,086	122.2	Mainly due to the increase in hedging volume of Unipec
Available-for-sale financial assets	868	3,730	(2,862)	(76.7)	Mainly due to the disposal of China Gas stock
Intangible assets	78,681	60,263	18,418	30.6	Please refer to Note 14 to the financial statements prepared in accordance with ASBE
Deferred tax assets	6,979	4,141	2,838	68.5	Mainly due to the increase of tax losses carried forward in Yangzi and other subsidiaries and the losses from hedging
Short-term loans	166,688	108,121	58,567	54.2	Please refer to Note 20 to the financial statements prepared in accordance with ASBE
Non-current liabilities due within one year	11,890	45,749	(33,859)	(74.0)	Mainly due to the repayment of RMB 3.5 billion corporate bond, RMB 30 billion bonds with warrants and HKD 11.7 billion convertible bonds. And parts of the long-term debentures reclassified to the non-current liabilities due within one year
Long-term loans	67,426	46,452	20,974	45.2	Please refer to Note 28 to the financial statements prepared in accordance with ASBE
Other non-current liabilities	11,549	8,187	3,362	41.1	Mainly due to the increase of loan principal under the long-term loan agreement between Sinopec International Petroleum Exploration and Production Limited's ("SIPL") subsidiary and the Sinopec Group
Capital reserve	48,703	36,947	11,756	31.8	Mainly due to the partial conversion of Sinopec CB
Other comprehensive income	(7,261)	407	(7,668)	(1,884.0)	Mainly due to cash flow hedging losses of Unipec and Sinopec (Hong Kong) Limited etc., and foreign currency translation differences of SIPL's joint venture companies
Specific reserve	491	1,556	(1,065)	(68.4)	Please refer to Note 35 to the financial statements prepared in accordance with ASBE
Financial expenses	9,618	6,274	3,344	53.3	Mainly due to change of foreign exchange gain or loss resulting from the fluctuation of RMB exchange rate
Impairment losses	6,839	4,044	2,795	69.1	Please refer to Note 42 to the financial statements prepared in accordance with ASBE
(Loss)/Gain from changes in fair value	(4,151)	2,167	(6,318)	(291.6)	Mainly due to fair value changes of derivatives embedded in RMB 23 billion convertible bonds of the Company
Investment income	8,137	2,510	5,627	224.2	Please refer to Note 44 to the financial statements prepared in accordance with

					ASBE
Non-operating income	4,710	3,481	1,229	35.3	Please refer to Note 45 to the financial statements prepared in accordance with ASBE
Income tax expense	17,571	25,605	(8,034)	(31.4)	Please refer to Note 47 to the financial statements prepared in accordance with ASBE
Minority interests	1,480	4,198	(2,718)	(64.7)	Mainly due to the decrease in profits of holding subsidiaries

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

Unit: RMB millions

	For the years ended 31 December				
Items	2014	2013	2012	2011	2010
Turnover and other operating revenues	2,825,914	2,880,311	2,786,045	2,505,683	1,913,182
Operating profit	73,487	96,785	98,662	105,530	104,974
Profit before taxation	65,504	95,052	90,642	104,565	103,663
Profit attributable to equity shareholders of the Company	46,466	66,132	63,879	73,225	71,782
Basic earnings per share (RMB)	0.398	0.570	0.566	0.650	0.637
Diluted earnings per share (RMB)	0.397	0.534	0.545	0.625	0.631
Return on capital employed (%)	6.05	8.02	9.09	11.49	12.95
Return on net assets (%)	7.84	11.63	12.50	15.50	17.11
Net cash generated from operating activities per share (RMB)	1.270	1.308	1.262	1.336	1.512

Unit: RMB millions

	As at 31 December				
Items	2014	2013	2012	2011	2010
Non-current assets	1,091,224	1,009,906	892,929	794,423	727,642
Net current liabilities	244,113	198,812	148,358	101,485	76,177
Non-current liabilities	201,534	189,468	196,535	185,594	200,429
Minority interests	52,536	52,823	37,122	35,016	31,432
Total equity attributable to equity shareholders of the Company	593,041	568,803	510,914	472,328	419,604
Net assets per share (RMB)	5.014	4.880	4.527	4.191	3.723
Adjusted net assets per share (RMB)	4.950	4.841	4.476	4.172	3.722

3 MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS PLEASE REFER TO PAGE 196 OF THE REPORT.

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CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL

Unit: Share

	Before change		Increase/(decrease)					After change	
Items	Numbers	Percentage (%)	New shares issued	Bonus shares issued	Conversion from reserve	Others	Sub-total	Number	Percentage (%)
RMB ordinary shares	91,051,875,187	78.11	—	—-	—	1,715,081,853	1,715,081,853*	92,766,957,040	78.43
Domestically listed foreign shares	—	—	—	—	—	—	—	—	—
Overseas listed foreign shares	25,513,438,600	21.89	—	—	—	—	—	25,513,438,600	21.57
Others	—	—	—	—	—	—	—	—	—
Total Shares	116,565,313,787	100				1,715,081,853	1,715,081,853	118,280,395,640	100

*: During the reporting period, a total number of 84,420,170 units Sinopec CB had been converted into A shares of Sinopec Corp, resulting in a total increase of 1,715,081,853 shares.

2 NUMBER OF SHAREHOLDERS AND THEIR SHAREHOLDINGS

As at 31 December 2014, the total number of shareholders of Sinopec Corp. was 695,385 including 688,972 holders of domestic A shares and 6,413 holders of overseas H shares. As at 13 March 2015, the total number of shareholders of Sinopec Corp. was 851,381. Sinopec Corp. has complied with requirement for minimum public float under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Hong Kong Listing Rules"). From the end of the reporting period to Redemption Record Date (11 February 2015), a total of 2,790,814,006 A shares were converted from the Sinopec CB.

(1) Shareholdings of top ten shareholders

The shareholdings of top ten shareholders as at 31 December 2014 are listed as below:

Name of shareholders
China Petrochemical Corporation

HKSCC Nominees Limited2

-

銀行-鵬華價值優勢 票型 投 &#

銀行 -博時裕富滬深300指數 &#

工商銀行-上 50交易型開放式&#2535

南方東英 產管理 -南方富時 A50

銀行 -嘉實滬深300交易型開&#25918

Note 1 As compared with the number of shares as at 31 December 2013.

Note 2 Sinopec Century Bright Capital Investment Limited, overseas wholly-owned subsidiary of China Petrochemical Corporation, holds 553,150,000 H shares, accounting for 0.47% of the total share capital of Sinopec Corp. which is included in the total number of the shares held by HKSCC Nominees Limited.

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

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

(2) Information disclosed by the shareholders of H shares according to the Securities and Futures Ordinance ("SFO")

Name of shareholders	Status of shareholders	Number of shares interests held or regarded as held *		Approximate percentage of Sinopec Corp.'s issued share capital (H Share) (%)	
JPMorgan Chase & Co.	Beneficial owner	656,026,310	(L)	2.57	(L)
		360,358,429	(S)	1.41	(S)
	Investment manager	364,641,100	(L)	1.42	(L)
	Trustee (other than a bare trustee)	32,200	(L)	0.00	(L)
	Custodian corporation/approved lending agent	1,357,077,571	(L)	5.31	(L)
BlackRock, Inc.	Interest of corporation controlled by	2,020,880,233	(L)	7.92	(L)
	the substantial shareholder	31,124,000	(S)	0.12	(S)
Schroders Plc	Investment manager	1,528,199,922	(L)	5.99	(L)

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

3 ISSUANCE AND LISTING OF SECURITIES

(1) Issuance of securities in last three years

Types of shares and derivative securities	Issuing date	Issuing price	Issued amount	Listing date	Amount approved for listing
New H shares	14 February 2013	HKD8.45/share	2,845,234,000 shares	14 February 2013	2,845,234,000 shares
Bonus A shares	20 June 2013	—	14,007,974,817 shares	20 June 2013	14,007,974,817 shares
Bonus H shares	25 June 2013	—	3,925,144,400 shares	26 June 2013	3,925,144,400 shares

(2) Changes in total number of shares and equity structure and the consequent changes in asset-liabilities structure
As of 31 December 2014, a total of 93,001,030 units of Sinopec CB had been converted into A shares of Sinopec Corp., and a total of 1,832,955,041 A shares has been converted from Sinopec CB. As at the end of the reporting period, there were 136,998,970 units of Sinopec CB which had not been converted into shares yet, accounting for 59.57% of the total number of issued Sinopec CB. The above-mentioned changes in total number of shares had no material impact on the asset-liabilities structure of the Company.

(3) Existing employee shares

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

4 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE DE FACTO CONTROLLER

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

(1) Controlling shareholder

The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation. Established in July 1998, China Petrochemical Corporation is a state-authorised investment organisation and a state-owned enterprise. Its registered capital is RMB 274,866,534,000, and the legal representative is Mr. Fu Chengyu. The organisation code of China Petrochemical Corporation is 10169286-X. Through re-organisation in 2000, China Petrochemical Corporation injected its principal petroleum and petrochemical businesses into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, well-logging services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services including water and power and social services.

Shares of other listed companies directly held by China Petrochemical Corporation

Name of Company	Number of Shares (shares)	Percentage
Sinopec Engineering (Group) Co. Ltd	2,907,856,000	65.67 %
Sinopec Yizheng Chemical Fibre Company Limited	9,224,327,662	72.01 %
Kingdream Public Limited Company	270,270,000	67.50 %
China Merchants Energy Shipping Co., Ltd	911,886,426	19.32 %

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

(3) Basic information of the de facto controller

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

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

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

CHAIRMAN'S STATEMENT

Mr. Fu Chengyu, Chairman

Dear shareholders,

On behalf of the Board of Directors, I would first like to express my sincerest gratitude to all of our shareholders and the wider community for your interest and support.

In 2014, Sinopec Corp. made significant progress toward fulfilling the Board's core commitment to improve development quality and returns through launching our initiatives to deepen reform, accelerate the transition to new sources of growth, as well as enhance internal management and maintained a favorable growth momentum. We are delighted to see that, with regard to reforms, Sinopec's marketing business has established mixed-ownership operations by restructuring and introducing private capital. This move not only enhanced our enterprise value but also advanced the transition of the business from an oil products supplier to an integrated services provider. With regard to growth mode transformation, commercial operations at the Fuling shale gas field commenced ahead of plan with a production capacity of 2 billion cubic meters per year, making China the first country outside North America to develop shale gas for commercial use. We have also fully upgraded our refined oil products and raised the production volume of our premium gasoline, for which growth in demand has been strong. Revenues for our non-fuel business in the marketing segment increased 28%. With regard to internal management, Sinopec effectively controlled costs for each business segment and conducted its operations safely. Our chemical feedstock and product mix also continued to improve due to the scheme of the optimisation of resources. The continued efforts of Sinopec management and employees have helped us tackle the huge challenge presented by the tumbling price of international crude in the fourth quarter of 2014. Sinopec maintained stable production and improved its ability to withstand risks, further enhancing its level of sustainable development.

In 2014, according to International Financial Reporting Standards, the Company had total revenues and other operating income of RMB 2.83 trillion, down by 1.9% from the previous year. Profits attributable to shareholders dropped by 29.7% to RMB 46.47 billion. Taking into account the Company's profitability, shareholder returns and future development needs, the Board proposed a final dividend of RMB 0.11 per share, which, combined with the interim dividend of RMB 0.09 per share, brings our total annual dividend to RMB 0.2 per share.

During the Board's three-year term, the global economy has seen a marginal recovery, while China has entered a period of adjustment after growing at a very high rate for more than 30 years. The country is now phasing into a New Normal of slower growth, an improved economic structure and a shift among the drivers of growth. The Board has addressed the quality of development and returns, and it has focused on top-down design to implement strategies for resources, markets, integration, internationalization, differentiation, and green and low-carbon development. The Board's aim is to realize its vision of building a people-oriented, world-leading energy and chemical company.

In the past three years, the Company has further enhanced its corporate governance and has attached great importance to increase its enterprise value. We return our shareholders and protected investor interests through an improved dividend policy; we set up the Social Responsibility Management Committee to guide the Company on sustainable development, established regulations such as Policy for Composition and Diversity of Board Members, and emphasized the roles played by Board committees and independent Board members; we continued to improve internal control mechanisms and our ability to execute internal control; and we increased corporate transparency by improving information disclosure and investor relations. Sinopec was also keen to make use of the capital markets for corporate development. With support from investors and the public, the Company raised a total of RMB 150 billion in equity through an H share private placement, a conversion of domestic A share convertible bonds, equity financing of

Sinopec Canton, and private capital raising in the marketing segment. At the same time, Sinopec financed its capital needs through the issuance of bonds based on market conditions, which effectively improved its capital and debt structure, enhanced enterprise value and supported the rapid development of the Company.

In the past three years, we have deepened reforms throughout the company. We led mixed-ownership reform in China with our marketing business, aiming to transform the segment into a market orientated business through joint efforts with private investors. The initiative laid the foundations for invigorating Sinopec, further increase our competitiveness, advancing the transition to a new model of business and ensuring sustainable growth. We have completed the capital restructuring of the Yizheng Chemical Fiber Company, which accelerated the listing plan for Sinopec Group's oilfield service business, and we mitigated the negative impacts on Yizheng's shareholders by preventing the company from being delisted potentially due to three years of consecutive losses. We have also successfully completed the A share reform of the Shanghai Petrochemical Company and Yizheng Chemical Fiber Company, and we have supported Shanghai Petrochemical's stock option incentive plan. In addition, we have continuously improved our investment management mechanism with a focus on returns, establishing market-oriented operation mechanisms that will let each segment become more specialised and market-based, an initiative that has shown early progress.

Over the past three years, we have been undertaking an overall transition in our business. We have focused on the quality of our development and returns by executing six major strategies with total capital expenditures RMB498.5 billion in the past three years. We increased our upstream reserve and production, upgraded the quality of our refined oil products, strengthened the performance of the marketing segment, realized fast growth in our non-fuel business, and continued to improve our chemical feedstock and product mix. Since 2011, crude oil output has increased by 12.1% and natural gas output has increased by 38.5%, with significant breakthroughs in shale gas development creating favourable prospects for the future. We fully upgraded the quality of our refined oil and were the first to make all of our gasoline and automobile diesel products meet the GB IV national standard; some regions have upgraded product to the GB V. We continued expanding the marketing business. The percentage of our domestic retail sales increased to 68.9%, and the non-fuel business recorded rapid growth, with revenues soaring by 107% as a result of our optimized platform. In order to improve our chemical feedstock and product mix, we raised the proportion of high-value-added products and enhanced our capabilities in risk management. We established the Energy Management and Environmental Protection Department inside the Company, and we plan to invest more than USD5 billion to implement the Clear Water, Blue Sky Scheme and the Energy Efficiency Doubling plan. The level of emissions and energy consumption continued to drop even as the overall level of business activities expanded. Since 2011, the average overall energy intensity has decreased by 5.2%; chemical oxygen demand (COD) in waste water discharged has decreased by 8.1%; and emissions of NHx, sulphur dioxide and NOx have decreased by 9.6%, 20% and 7.4%, respectively.

Over the past three years, we have also strengthened corporate management. We designed and implemented more rigid management regulations after the Qingdao 11/22 incident to ensure continuous improvement of our process flow, production organization, risk controls, security and stability management. Our production and operational costs in different business segments grew more slowly than those of our peers, which enabled us to effectively prevent and withstand sector risks.

In the past three years, we have been promoting technology innovation throughout the Company. Taking a forward-looking perspective, we explored technology system reform and placed a great emphasis on the role of technology in productivity. We strengthened our research in core technologies as well as our fundamental and forward-looking research. We continued our strategy of integrating production, marketing and research processes and sped up the application of scientific research discoveries. We further enhanced our capabilities in innovation and achieved a series of strategic research advances with practical applications. The breakthroughs in our research into shale gas development, new type of coal-to-chemical conversion, new materials, energy conservation and environmental protection have helped us to further improve our industry structure and product mix. During the past three years, we have won seven National Awards for Technological Invention, including one first-place award; 12 National Awards for Science and Technology Progress, including one special prize and three first-place awards; and two National Gold Patent Awards. We have obtained a total of 6,850 domestic and foreign patents. These achievements demonstrate the effectiveness with which the Company has embraced technology to further its development.

In the past three years, we have continued to fulfil our social responsibilities in all aspects of our business. We have joined the Global Compact LEAD and the Caring for Climate initiatives. We conscientiously followed the ten principles of the Global Compact, and made ten voluntary commitments at the Rio+20 Summit. Sinopec supported the United Nations Global Compact China network, hosting two sessions of the China Summit on Caring for Climate. We took the lead in publishing a corporate environment conservation white paper and an Environmental, Social and Governance report for shale gas development, setting an example for Chinese enterprises to collectively cope with climate change. The Company sincerely cares for its staff, actively participating in public welfare initiatives and promoting development that benefits both the business and its various stakeholders.

According to International Financial Reporting Standards, the Company's operating revenue in 2014 was up by 12.8% from 2011, and total assets and shareholder equity at the end of 2014 were up by 27.2% and 25.2%, respectively, from their levels at the end of 2011. The Company's announced cash dividends over the three-year period totalled RMB 82.4 billion, while both share price and market capitalization increased. Sinopec Group, with Sinopec Corp. as its core asset, ranked third on the Fortune Global 500 list for 2014. We could not have recorded these achievements without the joint efforts of Sinopec's Board, management team and employees, as well as the great support of our shareholders and the wider community.

In 2015, the Company continues to face a difficult operating environment, given the compounding effects of the "new normal" growth rate for China's economy and low international oil prices. We remain determined to meet these challenges proactively. We will continue to encourage innovations, deepen reform and drive the transition of the business, strengthen our business fundamentals with a focus on quality and efficiency, and raise the level of our production and operations based on market conditions. We plan to restrict capital expenditures to RMB 135.9 billion in 2015, which we will use mainly for improving the efficiency of upstream exploration, in particular through the development of unconventional oil and gas exploration and the construction of liquefied natural gas facilities; for revamping refineries and upgrading refined oil products; for developing the new business of coal-to-chemical conversion and the research and production of higher-value-added products; for accelerating the upgrade of service stations; and for continuing to carry out the Clear Water, Blue Sky Scheme and the Energy Efficiency Doubling plan.

Looking forward, Sinopec will vigorously pursue the opportunities to meet its challenges. We are committed to development through the improvement of internal quality and efficiency, and we will maintain our core strategy of driving growth by innovation, in order to transform Sinopec into a scientific and services based company. We hope to gradually shift the industry structure from "petroleum and chemicals" to "energy and materials," changing the value creation model from a focus on manufacturing to a focus on innovation and services.

As the current term of the Board approaches its end, on behalf of the Board, I would like to express my heartfelt gratitude to our shareholders, our other stakeholders and the community at large for your support and care; and to the Board of Supervisors, management team and all of our employees for your diligent work and devoted cooperation over the years.

The current term of the Board of Directors and the Board of Supervisors will expire in May 2015. Due to regulatory requirements and adjustments in their duties, Mr. Zhang Yaocang, Mr. Cao Yaofeng, Mr. Chen Xiaojin, Mr. Ma Weihua will not renew their terms. They have all been very dedicated members who adhered to their responsibilities as they actively participated in Sinopec Corp.'s decision-making processes. They were crucial in enabling the Board of Directors to make informed decisions and carry out effective oversight. I would like to thank them for their hard work and great contributions to the Company.

The current Board of Directors has already nominated candidates for the new boards. The candidates are all outstanding managers and experts in macroeconomics, finance and securities, corporate management as well as the oil and gas industry. I believe their solid industry backgrounds and professional experience will bring vitality and new perspectives to the boards while strengthening the decision-making and supervisory standards of these two bodies.

I do believe that under the leadership of both the current and the new Board of Directors, together with the dedication of every one of our employees and the sustained support of all our stakeholders, we will continue to make significant progress in deepening reform across all parts of our business and realising our vision for Sinopec Corp., for China and for a better world.

Fu Chengyu

Chairman

Beijing, China

20 March 2015

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BUSINESS REVIEW AND PROSPECTS

Mr. Li Chunguang, Board Director and President

BUSINESS REVIEW

In 2014, the global economic recovery remained weak, and China's GDP grew by 7.4%. The Company, focusing on growth quality and efficiency, further deepened reforms, transformed its growth model and strengthened its management. Through intensified analysis and forecasting of macroeconomy and market trends, we actively responded to the significant change of international crude oil prices while expediting structural adjustments, expanding our markets and enhancing fine management and cost controls. All of these efforts contributed to stable operations of the Company.

1 Market Review

(1) Crude oil and natural gas

In 2014, international crude oil prices fluctuated at a high level in the first half of the year and plunged in the second half, with a precipitous drop in the fourth quarter. The average spot price of Platts Brent for the year was USD 99.45 per barrel, 8.5% lower than the previous year. China's demand for natural gas continued to increase in 2014. Chinese Government made further adjustments to the price of existing supplies of non-residential natural gas, thus gradually aligning domestic gas prices with those of alternative energy sources.

(2) Oil products market

In 2014, Chinese government timely adjusted domestic oil product prices in response to changes in international crude oil prices. In the second half of 2014, domestic oil product prices experienced 11 consecutive cuts as international crude prices plummeted. Affected by slowing economic growth, domestic demand for oil products grew at a lower rate, with diesel demand decreased despite a continued increase in gasoline demand. Statistics show that domestic apparent consumption of oil products (including gasoline, diesel and kerosene) was 269 million tonnes in 2014, up by 2.0% from the previous year.

(3) Chemicals

In 2014, chemical prices declined continuously. The second half of the year saw a bigger decrease in feedstock costs than in chemical prices, thus improving chemical margins. According to the Company's statistics, domestic apparent consumption of synthetic resin and synthetic fiber rose by 8.7% and 7.0%, respectively, from the previous year, while apparent consumption of synthetic rubber fell by 1.9% and that of ethylene equivalent grew by 4.9%.

2 Operations Review

(1) Exploration and production

In 2014, driven by management and technology innovation, we implemented exploration and development programs efficiently and made a number of new findings, some of which are commercial discoveries. With 106.75 billion cubic meters of reserves added to the Fuling shale gas project, China's first sizable shale gas field came into being. In 2014, newly added proved oil and gas reserves amounted to 431 million barrels. In crude oil development, we focused on improvements to economics through optimal development of new blocks, further development of mature fields and enhancing recovery rates continuously. In natural gas development, we accelerated the capacity construction of major projects, strengthened management of the Puguang gas field and other mature fields, adjusted marketing strategies, expanded sales volume and achieved better economic returns. In shale gas development, the Fuling project's Phase I construction, with capacity of 5 billion cubic meters per year, progressed smoothly, and daily output of all producing wells exceeded design targets, laying a good foundation for future development. In 2014, production of oil & gas rose by 8.4% to 480.22 million barrels of oil equivalent, among which domestic crude oil production remained flat, while overseas production increased significantly as a result of overseas acquisition at the end of 2013. Natural gas production rose by 8.5% to 716.4 billion cubic feet. Average unit all-in-cost has been well under control.

Summary of Operations for the Exploration and Production Segment

	2014	2013	2012	Change from 2013 to 2014(%)
Oil and gas production (mmboe)	480.22	442.84	427.95	8.44
Crude oil production (mmbbls)	360.73	332.54	328.28	8.48
China	310.87	310.84	306.60	0.01
Overseas	49.86	21.70	21.68	129.77
Natural gas production (bcf)	716.35	660.18	598.01	8.51

Summary of Reserves of Crude Oil and Natural Gas

	Reserves of Crude Oil (mmbbls) 31 December 2014
Proved Reserves	3,048
Proved Developed Reserves	2,782
Shengli	1,917
Others	548
Total, China	2,465
Overseas	317
Proved Undeveloped Reserves	266

Shengli	105
Others	130
Total, China	235
Overseas	31

	Reserves of Natural Gas (bcf) 31 December 2014
Proved Reserves	6,741
Proved Developed Reserves	6,011
Puguang	2,663
Others	3,324
Total, China	5,987
Overseas	24
Proved Undeveloped Reserves	730
Total, China	728
Overseas	2

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Exploration & Production Activities

	As of 31 December			
	2014		2014	
Wells drilling	gross	net	gross	net
Total, China	310	309	267	267
Shengli	63	63	93	93
Others	247	246	174	174
Overseas	3	1	2	0
Total	313	310	269	267

		China		Oversea	
Wells drilled	Total	Shengli	Other	Subsidiaries	Equity-accounted investments
For the year ended December 31, 2014					
Exploratory – Productive	337	141	193	—	3
– Dry	187	64	123	—	—
Development – Productive	3,964	2,027	1,614	6	317
– Dry	56	30	26	—	—
For the year ended December 31, 2013					
Exploratory – Productive	350	112	238	—	—
– Dry	352	96	256	—	—
Development – Productive	4,513	2,490	2,016	5	2
– Dry	83	39	44	—	—

Unit:Square Kilometers

	As of 31 December	
	2014	2013
Acreage with exploration license	960,981	983,680
China	960,981	983,680
Acreage with development license	27,921	26,665
China	22,912	22,563
Overseas	5,009	4,102

(2) Refining

In 2014, the Company adjusted its product mix in response to the market, increasing production of oil products and high-value-added products for which demand was strong, such as gasoline (especially high-octane gasoline) and jet fuel, further decreasing the diesel to gasoline ratio. We accelerated the quality upgrade of oil products, increasing production of GB IV automotive diesel, with some regions gasoline and diesel upgraded to GB V standard. We effectively controlled costs through improvements in resource allocation, optimising selection of oil to be processed, as well as inventory management. Through tapping our well established advantages in specialisation, margins of lubricants, liquefied petroleum gas (LPG) and asphalt further improved, delivering good economic returns. In 2014, we processed 235 million tonnes of crude oil, up by 1.5% from the previous year, and produced 146 million tonnes of refined oil products, up by 4.2%.

Summary of Operations for the Refining Segment

Unit: million tonnes

	2014	2013	2012	Change from 2013 to 2014 (%)
Refinery throughput	235.38	231.95	221.31	1.48
Gasoline, diesel and kerosene production	146.23	140.40	132.96	4.15
Gasoline	51.22	45.56	40.55	12.42
Diesel	74.26	77.40	77.39	(4.06)
Kerosene	20.75	17.43	15.01	19.05
Light chemical feedstock	39.17	37.97	36.33	3.16
Light products yield (%)	76.52	76.19	76.75	0.33 percentage points
Refinery yield (%)	94.66	94.82	95.15	(0.16) percentage points

Note: Includes 100% of production of joint ventures.

(3) Marketing and distribution

In 2014, the Company initiated business restructuring in the marketing segment and has launched mixed-ownership reform by introducing private capital. Sinopec Corp. entered into capital increase agreements with 25 investors, established a mechanism aiming to transform the segment into a market orientated business through joint efforts with private investors. The initiative laid the foundations for further reform on the operational systems and mechanisms of our marketing business with the aim of development through innovations.

In 2014, in light of the slower growth of domestic demand for oil products and the particularly weak demand for diesel, we adjusted our marketing strategies, enhancing marketing efforts on high-octane gasoline and jet fuel to increase total sales volume. We expanded our retail volume by using our network and brand advantages, enhancing customer service at service stations. At the same time, we further developed our non-fuel businesses, improved the customer experience and provided one-stop services through our online fuel-card services and self-service mobile apps and equipment. Non-fuel business transaction increased by 28% over 2013 to RMB 17.1 billion. In 2014, total sales volume of refined oil products was 189 million tonnes, up by 5.1% from the previous year, with domestic sales rising by 3.4% to 171 million tonnes and retail rising by 3.6%.

Summary of Operations for Marketing and Distribution Segment

	2014	2013	2012	Change from 2013 to 2014 (%)
Total sales volume of oil products (million tonnes)	189.17	179.99	173.15	5.10
Total domestic sales volume of oil products (million tonnes)	170.97	165.42	158.99	3.36
Retail sales (million tonnes)	117.84	113.73	107.85	3.61
Direct sales & Distribution (million tonnes)	53.13	51.69	51.14	2.79
Annual average throughput per station (tonne/station)	3,858	3,707	3,498	4.07

	31 December 2014	31 December 2013	31 December 2012	Change from the end of the previous year to the end of the reporting period (%)
Total number of service stations under Sinopec brand	30,551	30,536	30,836	0.05
Number of company-operated stations	30,538	30,523	30,823	0.05

(4) Chemicals

In 2014, confronted by severe market conditions that saw prices of chemicals remaining at anemic levels, the Company cut its feedstock costs by increasing the light feedstock ratio, adjusted its product mix and intensified efforts in R&D, production, and sales of new products. Sales of new polyolefin products and specialty materials accounted for 57.4% of total sales, and high-value-added rubber accounted for 17.4%. The synthetic fiber differentiation rate was 76.7%. In addition, we optimised operations of our manufacturing facilities, adjusted utilisation rates, and shut down facilities with unsatisfactory marginal costs. Ethylene output was up by 7.2% from 2013 to 10.7 million tonnes. Meanwhile, by keeping inventories at low levels and implementing a differentiated marketing strategy, our full-year chemical sales volume increased by 4.4% to 60.79 million tonnes, with all manufactured chemicals sold.

Summary of Operations for Chemicals Segment

Unit: thousand tonnes

	2014	2013	2012	Change from 2013 to 2014 (%)
Ethylene	10,698	9,980	9,452	7.19
Synthetic resin	14,639	13,726	13,343	6.65
Synthetic rubber	939	960	936	(2.19)
Synthetic fiber monomer and polymer	8,383	9,227	8,950	(9.15)
Synthetic fiber	1,315	1,392	1,339	(5.53)

Note: Includes 100% production of joint ventures.

(5) Research and development

In 2014, the Company fully tapped the functions of research and development in supporting and leading its business operations, stepping up its R&D efforts with remarkable results. In upstream, we successfully completed the well pad drilling test for shale gas development, achieving substantial improvements in efficiency of construction. We developed offshore well safety control technologies to enhance the safety and efficiency of production in offshore oilfields. In refining, we commercialised technologies for high-aromatics-content catalytic diesel hydrogenation, countercurrent continuous reforming and diesel ultra-deep hydrogenation for desulfurizationt. In chemicals, we brought online a demonstration plant for converting syngas to ethylene glycol, marking a breakthrough in coal chemical technologies. We successfully commissioned a demonstration plant for super-imitation-cotton fiber technologies. We also developed bacteria-resistant polypropylene and polypropylene for low-temperature packaging. We applied for a total of 4,968 patents at home and abroad, and 3,011 patents were granted in 2014. During the year, we won one National Patent Gold Award and five Awards of Excellence, two first-place awards and three second-place awards for National Science and Technology Advancement, and two second-place awards for Technology Invention.

(6) Health, safety and the environment

In 2014, the Company vigorously implemented its green and low-carbon development strategy and its Clear Water, Blue Sky environmental protection plan, advanced its carbon assets management activities, and officially kicked off the Energy Efficiency Doubling initiative. By further integrating efforts in energy conservation, emissions control and carbon reduction, the effectiveness of our energy saving and environmental protection activities improved continuously. Compared with last year, energy intensity was down by 0.6%, industrial water consumption was down by 1.1%, chemical oxygen demand of waste water discharge was down by 2.5%, NHx emissions were down by 4.2%, sulfur dioxide emissions were down by 8.1%, NOx emissions were down by 3.9%, and all hazardous chemicals, discharged water, gas, and solid waste were properly treated.

In 2014, the Company improved its work safety and accountability scheme, conducted safety checks, focused on identification and elimination of potential hazards, stepped up the construction of its emergency response capabilities and its IT applications for safety management, standardised worker protection, and safeguarded the health of its employees. For more detailed information, please refer to our corporate report, Communication on Progress for Sustainable Development.

(7) Capital expenditures

In 2014, the Company optimised its asset portfolio and investment activities. Total capital expenditures were RMB 154.640 billion, down by 4.2% from the plan made at the beginning of the year. Capital expenditures for exploration and production segment were RMB 80.196 billion, mainly for exploration and production in Jiyang trough, Sichuan Basin, Tahe oilfield, and Ordos Basin, liquefied natural gas (LNG) projects in Shandong and Guangxi, construction of long-distance oil and gas pipeline projects, and the oversea projects. We added crude oil capacity of 4.36 million tonnes per year and natural gas capacity of 5.9 billion cubic meters per year. Capital expenditures for refining segment were RMB 27.957 billion, mainly for refinery revamping and gasoline and diesel quality upgrading projects by subsidiaries in Shijiazhuang, Yangtze, Tahe and Jiujiang. We added refining capacity of 9.5 million tonnes per year, and acquired 37.5% shares of Yanbu Refinery. Capital expenditures for marketing and distribution segment were RMB 26.989 billion, mainly for developing and renovating service stations and for building oil product pipelines and oil depots. We added 556 service stations for the year. Capital expenditures for chemicals segment were RMB 15.850 billion, mainly for the coal chemical plant at Sinopec Great Wall Energy and Chemical Industry (Ningxia) Company Ltd. and the Qilu acrylonitrile project. We added ethylene capacity of 190,000 tonnes per year and synthetic resin capacity of 600,000 tonnes per year. Capital expenditures for corporate and others were RMB 3.648 billion, mainly for R&D facilities and IT application projects.

(8) Oil & gas reserve appraisal principles

We manage our reserves estimation through a two-tier management system. Our 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 management committee that manages the reserves estimation process and reviews the reserves estimation report at the branches level.

Our RMC is chaired by Mr. Wang Zhigang, one of our senior vice presidents, and is co-led by our deputy chief geologist and our director general of our exploration and production segment. Mr. Wang 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 oil and gas industry. Our RMC also consists of 31 other members who are 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 subsidiary level then review to ensure the qualitative and quantitative compliance with technical guidance and accuracy and reasonableness of the reserves estimation. 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 specialised reserves database which is improved and updated periodically.

BUSINESS PROSPECTS

(1) Market analysis

The 2015 world economy is expected to continue its slow recovery while China’s economy will enter a New Normal state of slower growth. The international crude oil price is projected to remain anaemic. Domestic demand for refined oil products is to grow steadily with product mix further adjusted, quality gradually upgraded. Domestic demand for major chemicals is to grow step by step.

(2) Operations

In 2015, the Company will focus on improving the quality and efficiency of growth while deepening reforms, transforming its development model, and implementing rigorous management programs. We will put more emphasis on restructuring, resource optimisation, innovation and risk control. Key measures are as follows:

Exploration and production: In response to low oil prices, the Company will integrate reserves, production, investment, costs and earnings and will seek to optimise its exploration activities, lower its development costs, and increase commercial yields for oil and gas. In exploration, we will focus on making commercial discoveries, exploiting reserve potential in frontier areas and other key promising regions, and improving the success rate of exploration. In development, we will select projects and production targets based on oil price level. We will also further develop mature fields and put technologies that significantly enhance recovery into wide operation. In addition, we will facilitate development of shale gas to fast-track shale gas projects and expedite capacity-building projects for natural gas. In 2015, we plan to produce 300 million barrels of crude oil in China, 48 million barrels from our oversea assets, and 886.3 billion cubic feet of natural gas.

Refining: The Company will optimise crude procurement and resource allocation to reduce costs, take better advantage of our economies of scale to control unit costs, and upgrade oil product quality to increase the supply of clean fuels. We will also strengthen the integration of production and sales, adjust our product slate and utilisation rates, and increase the output of higher-value-added products which are well received by market. In addition, we will seek to unlock the potential value of specialisation, improve our sales networks, and enhance the marketing of lubricants, LPG, asphalt and other products. In 2015, we plan to refine 243 million tonnes of crude oil and produce 152 million tonnes of oil products.

Marketing and distribution: The Company will proactively explore to innovate on operational systems and mechanisms with an aim to transform Sinopec from an oil products supplier into an integrated services provider. To ensure maximum profits, the Company will improve its market analysis based on fundamental changes in the market and operate with low inventory levels to mitigate risks and facilitate adjustments to its marketing structure. We will expand our retail sales volume and increase per station pumped volume. We will accelerate the planning and construction of our oil product pipelines to optimise our marketing network, carry out differentiated marketing strategies and increase customer loyalty by providing tailor-made services. We will also develop our non-fuel businesses on the basis of specialisation and market orientation to increase both scale and profits of the business. In 2015, we plan to sell 173 million tonnes of oil products in the domestic market.

Chemicals: The Company will further adjust its feedstock structure, lower feedstock costs, accelerate improvements in its product mix, and strengthen the integration of manufacturing, marketing and R&D. We will increase the production of higher-value-added products which are well received by markets, enhance the development, production and promotion of new products, fine-tune facilities operations and utilisation rates according to profit margins, take advantage of our strengths in marketing network and improve our sales performance. In 2015, we plan to produce 10.9 million tonnes of ethylene.

R&D: We will continue to implement the strategies of development driven by innovations. Areas of focus for R&D include shale oil and gas exploration and development, oil and gas recovery enhancement technologies aiming to increase production and reserve, biofuels, heavy oil refining, clean fuels for quality upgrading, new catalytic materials, high-performance synthetic chemicals and fine chemicals to promote restructuring of product mix. In addition, we will develop and apply technologies that are greener and less carbon-intensive, thus conserving energy while preserving the environment. We will continue to emphasise fundamental and forward-looking R&D activities to improve the Company’s innovation for the purpose of supporting and driving its transformative growth.

Capital expenditures: In 2015, the Company will look to improve its project portfolio and investment plan based on market conditions. Our capital expenditure budget for the year is RMB 135.9 billion, of which exploration and production segment accounts for RMB 68.2 billion, mainly for Fuling shale gas project construction, exploration and development projects in Shengli oilfield, Sichuan Basin, Tahe oilfield, Junggar Basin, and Ordos Basin as well as Guangxi and Tianjin LNG projects; gas pipelines; and overseas projects. Refining segment accounts for expenditures of RMB 24.0 billion, mainly for revamping Qilu and Jiujiang refineries, as well as product quality projects such as gasoline adsorbent desulfurization and diesel hydrogenation. Marketing and distribution segment accounts for expenditures of RMB 22.6 billion, mainly for revamping service stations, constructing the product pipeline networks, optimising the distribution of tank farms, and improving facilities for service stations and non-fuel businesses to develop integrated service with an aim to support new businesses. Chemicals segment accounts for expenditures of RMB15.1 billion, mainly for the Jinling propylene oxide and LPG utilisation projects and the Hainan PX phase II project. Corporate and others segment accounts for expenditures of RMB 6.0 billion, mainly for R&D facilities and IT projects.

In 2015, the Company will proactively adapt to the “new normal” situation of macroeconomy, building up new drivers for development, continuously improving its overall strength and competitiveness in the global arena, as well as capabilities to maintan sustainable growth and striving to achieve remarkable results.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

1 CONSOLIDATED RESULTS OF OPERATIONS

In 2014, the Company's turnover and other operating revenues were RMB 2,825.9 billion, decreased by 1.9% compared with that of 2013. The operating profit was RMB 73.5 billion, representing a year on year decrease of 24.1%.

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

	Years ended 31 December		
	2014 (RMB millions)	2013 (RMB millions)	Change (%)
Turnover and other operating revenues	2,825,914	2,880,311	(1.9)
Turnover	2,781,641	2,833,247	(1.8)
Other operating revenues	44,273	47,064	(5.9)
Operating expenses	(2,752,427)	(2,783,526)	(1.1)
Purchased crude oil, products, and operating supplies and expenses	(2,334,399)	(2,371,858)	(1.6)
Selling, general and administrative expenses	(68,374)	(69,928)	(2.2)
Depreciation, depletion and amortisation	(90,097)	(81,265)	10.9
Exploration expenses (including dry holes)	(10,969)	(12,573)	(12.8)
Personnel expenses	(57,233)	(55,353)	3.4
Taxes other than income tax	(191,202)	(190,672)	0.3
Other operating expense, net	(153)	(1,877)	(91.8)
Operating profit	73,487	96,785	(24.1)
Net finance costs	(14,229)	(4,246)	235.1
Investment income and share of profits less losses from associates and jointly controlled entities	6,246	2,513	148.5
Profit before taxation	65,504	95,052	(31.1)
Income tax expense	(17,571)	(24,763)	(29.0)
Profit for the year	47,933	70,289	(31.8)
Attributable to:			
Equity shareholders of the Company	46,466	66,132	(29.7)
Non-controlling interests	1,467	4,157	(64.7)

(1) Turnover and other operating revenues

In 2014, the Company's turnover was RMB 2,781.6 billion, representing a decrease of 1.8% over 2013. This was mainly attributable to the decline of crude oil and petrochemical products prices.

The following table sets forth the external sales volume, average realised prices and respective rates of change of the Company's major products in 2014 and 2013:

	Sales volume (thousand tonnes)			Average realised price (RMB/tonne, RMB/thousand cubic meters)		
	Years ended 31 December		Change (%)	Years ended 31 December		Change (%)
	2014	2013		2014	2013	
Crude oil	8,864	7,604	16.6	4,008	4,253	(5.8)
Domestic	8,780	7,582	15.8	4,001	4,252	(5.9)
Oversea	84	22	281.8	4,691	4,678	0.3
Natural gas (million cubic meters)	16,661	15,907	4.7	1,589	1,336	18.9
Gasoline	64,083	59,482	7.7	8,339	8,498	(1.9)
Diesel	102,724	99,855	2.9	6,647	7,050	(5.7)
Kerosene	21,845	20,162	8.3	5,710	6,116	(6.6)
Basic chemical feedstock	27,277	25,838	5.6	6,151	6,870	(10.5)
Monomer and polymer for synthetic fibre	6,479	6,856	(5.5)	7,223	8,167	(11.6)
Synthetic resin	11,584	10,696	8.3	9,684	9,631	0.6
Synthetic fibre	1,430	1,488	(3.9)	9,436	10,356	(8.9)
Synthetic rubber	1,205	1,346	(10.5)	10,554	12,214	(13.6)
Chemical fertiliser	598	1,129	(47.0)	1,686	1,698	(0.7)

Most of crude oil and a portion of natural gas produced by the Company were internally used for refining and chemical production, with the remaining sold to other customers. In 2014, the turnover from crude oil, natural gas and other upstream products sold externally amounted to RMB 69.6 billion, an increase of 14.3% over 2013. The change was mainly due to the increase in sales volume of crude oil and increase in sales volume and prices of natural gas in 2014.

In 2014, petroleum products (mainly consisting of oil products and other refined petroleum products) sold by Refining Segment and Marketing and Distribution Segment achieved external sales revenues of RMB 1,633.9 billion, accounting for 58.7% of the Company's turnover and other operating revenues, representing a decrease of 2.8% over 2013 mainly due to the decline of various refinery products prices and sales volume decrease of other refined petroleum products which offset the effect of increase in gasoline, diesel and kerosene sales volumes. The sales revenue of gasoline, diesel and kerosene was RMB 1,342.0 billion, representing an increase of 0.7% over 2013, and accounting for 82.1% of the total sales revenue of petroleum products. Turnover of other refined petroleum products was RMB 291.9 billion, representing a decrease of 16.0% compared with 2013, accounting for 17.9% of the total sales revenue of petroleum products.

The Company's external sales revenue of chemical products was RMB 357.0 billion, representing a decrease of 4.6% over 2013, accounting for 12.8% of the Company's total turnover. This was mainly due to the decline of chemical product prices which offset the sales volume increase of basic chemical feedstock and synthetic resin.

(2) Operating expenses

In 2014, the Company's operating expenses were RMB 2,752.4 billion, decreased by 1.1% compared with 2013. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses were RMB 2,334.4 billion, representing a decrease of 1.6% over the same period of 2013, accounting for 84.8% of the total operating expenses, of which:

Crude oil purchasing expenses were RMB 837.4 billion, representing a decrease of 4.2% over the same period of 2013. Throughput of crude oil purchased externally in 2014 was 177.29 million tonnes (excluding the volume processed for third parties), representing a decrease of 0.6% over the same period of 2013. The average cost of crude oil purchased externally was RMB 4,724 per tonne, representing a drop of 3.6% against 2013.

The Company's other purchasing expenses were RMB 1,497.0 billion, remains basically the same with that of 2013.

Selling, general and administrative expenses of the Company totaled RMB 68.4 billion, representing a decrease of 2.2% over 2013.

Depreciation, depletion and amortization expenses of the Company were RMB 90.1 billion, representing an increase of 10.9% as compared with 2013. This was mainly due to the increased investment in fixed assets.

Exploration expenses were RMB 11.0 billion, representing a decrease of 12.8% compared with 2013, mainly due to the Company's optimisation of exploration investment, improvement in exploration success rate as well as effective reduction in exploration expenses.

Personnel expenses were RMB 57.2 billion, representing an increase of 3.4% over 2013.

Taxes other than income tax were RMB 191.2 billion, representing an increase of 0.3% compared with 2013. This was mainly due to the increase of RMB 3.4 billion in consumption tax as a result of increased consumption tax rate, as well as the RMB 0.6 billion increase in city construction tax and educational surcharge; meanwhile the special oil income levy decreased by RMB 3.4 billion as a result of decreased oil price.

Other operating expense (net amount) were RMB 0.2 billion.

(3) Operating profit was RMB 73.5 billion, representing a decrease of 24.1% compared with 2013.

(4) Net finance costs were RMB 14.2 billion, representing an increase of 235.1% over 2013. Of which: the net interest expense of the Company was RMB 9.4 billion, representing an increase of RMB 0.4 billion over 2013; gains from foreign exchange decreased by RMB 2.9 billion as compared with 2013 due to the RMB appreciation slower than that in 2013; for the convertible bonds issued by the Company, unrealised loss from fair value change of the period was RMB 4.6 billion, compared with unrealised gains of RMB 2 billion in the same period of 2013.

(5) Profit before taxation was RMB 65.5 billion, representing a decrease of 31.1% as compared with 2013.

(6) Tax expense was RMB 17.6 billion, representing a decrease of RMB 7.2 billion as compared with 2013.

(7) Profit attributable to non-controlling interests of the Company was RMB 1.5 billion, representing a decrease of RMB 2.7 billion comparing with 2013.

(8) Profit attributable to equity shareholders of Sinopec Corp. was RMB 46.5 billion, representing a decrease of 29.7% compared with 2013.

2 RESULTS OF SEGMENT OPERATIONS

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

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

Operating revenues Year ended 31 December		As a percentage of consolidated operating revenue before elimination of inter-segment sales Year ended 31 December		As a percentage of consolidated operating revenue after elimination of inter-segment sales Year ended 31 December
2014	2013	2014	2013	