Financial Statements

Consolidated Balance Sheet

million RMB yuan

	2018	2019
Current assets		
Cash and cash equivalent	229,910.44	235,219.65
Funds lent	212,766.93	218,250.12
Financial assets held for trading	80,164.85	71,433.97
Derivative financial assets	270.98	216.93
Notes receivable	2,725.78	511.90
Accounts receivable	104,757.04	102,826.89
Receivables under financing	15,897.36	7,562.56
Prepayments	202,177.11	158,604.29
Premium receivable	117.35	94.12
Reinsurance accounts receivable	626.58	615.50
Reinsurance reserves receivable	1,332.93	1,291.31
Other receivables	23,793.52	30,613.57
Financial assets purchased under resale agreements	30,736.27	10,957.11
Inventories	249,224.40	257,020.86
Contract assets	-	0.01
Non-current assets maturing within one year	134,266.38	168,726.62
Other current assets	114,144.19	132,878.14
Total current assets	1,402,912.11	1,396,823.55
Non-current assets		
Loans and advances issued	63,784.31	29,149.65
Debt investments	94,929.89	93,385.88
Other debt investments	38,813.56	40,430.82
Long-term accounts receivable	57,139.13	54,294.96
Long-term equity investments	116,215.01	154,018.37
Other investments in equity instruments	9,062.48	10,778.95
Other non-current financial assets	28,416.92	42,810.70
Investment properties	2,573.44	2,855.36
Fixed assets	891,236.22	905,281.70
Construction in progress	252,692.12	277,849.67
Productive biological assets	0.19	0.15

Consolidated Balance Sheet (continued)

million RMB yuan

	2018	2019
Oil and gas assets	930,672.37	970,722.41
Right-of-use assets	-	-
Intangible assets	93,610.71	100,875.87
Development expenditure	1,274.99	1,251.68
Goodwill	42,363.05	42,905.99
Long-term deferred expenses	37,503.24	46,604.68
Deferred tax assets	32,969.78	33,542.12
Other non-current assets	35,094.16	32,159.61
Total non-current assets	2,728,351.57	2,838,918.57
Total assets	4,131,263.68	4,235,742.12
Current liabilities		
Short-term loans	80,876.11	102,286.47
Borrowings from central bank	1,817.19	1,331.12
Borrowing funds	72,101.24	65,139.67
Derivative financial liabilities	404.88	3,551.41
Notes payable	27,914.56	41,554.65
Accounts payable	361,643.93	379,410.75
Receipts in advance	36,584.48	32,884.98
Contractual liabilities	67,605.49	81,784.64
Funds from sales of financial assets with repurchase agreement	28,041.50	30,324.45
Deposits from customers and interbank	200,926.68	198,436.48
Funds arising from acting trading of securities	0.01	0.01
Employee benefits payable	33,896.29	44,763.16
Taxes payable	85,638.38	78,407.69
Other payables	69,861.56	79,106.03
Handling charges and commissions payable	30.25	29.85
Reinsurance accounts payable	721.78	582.44
Non-current liabilities due within one year	121,243.22	72,592.67
Other current liabilities	65,670.41	88,604.46
Total current liabilities	1,254,977.96	1,300,790.93

Consolidated Balance Sheet (continued)

million RMB yuan

	2018	2019
Non-current liabilities		
Reserve for insurance contracts	3,355.05	3,691.38
Long-term loan	21,264.60	21,146.92
Debentures payable	242,350.73	302,950.55
Lease liabilities	-	-
Long-term payables	9,359.01	5,668.89
Long-term employee remuneration payable	1,676.97	1,613.01
Accrued liabilities	158,725.49	164,026.22
Deferred income	16,982.99	23,790.49
Deferred tax liabilities	31,178.89	35,287.71
Other non-current liabilities	2,620.92	3,156.24
Total non-current liabilities	487,514.65	561,331.41
Total liabilities	1,742,492.61	1,862,122.34
Owners' equity		
Paid-up capital (or share capital)	486,855.00	486,855.00
Other equity instruments	150,468.79	104,727.09
Capital reserve	282,572.87	275,435.62
Other comprehensive income	-28,967.02	-14,870.81
Special reserve	33,366.68	32,439.08
Surplus reserve	1,084,354.66	1,084,354.66
General risk provisions	10,946.07	11,663.96
Undistributed profit	-21,575.35	-10,996.23
Total equity attributable to CNPC	1,998,021.70	1,969,608.37
Minority interest	390,749.37	404,011.41
Total owners' equity	2,388,771.07	2,373,619.78
Total liabilities and owners' equity	4,131,263.68	4,235,742.12

Consolidated Income Statement

million RMB yuan

	2018	2019
1. Revenue	2,739,011.50	2,771,434.92
Including: Operating revenue	2,713,819.61	2,747,058.33
Interest income	22,973.57	21,834.38
Premiums earned	329.92	707.50
Handling charges and commission income	1,888.40	1,834.71

Consolidated Income Statement (continued)

million RMB yuan

	2018	2019
2.Total cost of operations	2,545,501.66	**2,628,014.72**
Including: Operating cost	2,092,669.12	**2,139,324.00**
Interest expenses	9,509.95	**10,372.70**
Handling charges and commission expenses	188.46	**220.44**
Net expenditure for compensation payments	300.80	**400.64**
Net amount of provision for insurance contract	309.75	**340.35**
Policyholder dividend expenses	-	-
Reinsurance costs	-67.05	**133.29**
Tax and surcharges	231,975.85	**240,296.07**
Selling expenses	78,649.64	**83,884.02**
Administrative expenses	97,589.36	**99,857.52**
R&D expenses	15,968.93	**21,752.70**
Finance expenses	-1,001.12	**10,262.19**
Others	19,407.97	**21,170.80**
Add: Other gains	12,800.72	**13,021.95**
Gain from investment (Loss is represented by "-")	14,141.84	**19,808.26**
Exchange gain (Loss is represented by "-")	210.58	**62.43**
Net exposure gains (Loss is represented by "-")	-	-
Gains from change in fair value (Loss is represented by "-")	250.53	**1,229.86**
Credit impairment loss (Loss is represented by "-")	554.24	**-6,071.67**
Impairments loss of assets (Loss is represented by "-")	-65,890.33	**-26,895.70**
Gain on disposal of assets (Loss is represented by "-")	1,384.13	**1,462.36**
3.Operating profit (Loss is represented by "-")	156,961.55	**146,037.69**
Add: Non-operating revenue	11,743.52	**12,141.58**
Including: Government grants	7,638.14	**5,977.27**
Less: Non-operating expenses	58,145.58	**37,815.58**
4. Earnings before taxes (Loss is represented by "-")	110,559.49	**120,363.69**
Less: Income tax expenses	67,757.04	**60,772.82**
5.Net income (Net loss is represented by "-")	42,802.45	**59,590.87**
(1) Classified by continuity of operations:		
Net income from continuous operation	42,802.45	**59,590.87**
Net income from discontinued operation	-	-
(2) Classified by ownership:		
Net income attributable to CNPC	15,018.84	**30,695.67**
Minority interest	27,783.61	**28,895.20**

Notes to the Financial Statements

A. Description of Principal Accounting Policies and Estimates

1. Accounting standard and system

CNPC (hereinafter referred to as the Company) follows *Accounting Standards for Business Enterprises –Basic Principles* and the specific rules of accounting standards, guidelines for the application of accounting standards, interpretations of accounting standards and relevant regulations issued by the Ministry of Finance.

2. The fiscal period

The fiscal period of the company starts on January 1 and ends on December 31 each calendar year.

3. Standard accounting currency

The Company and most of its subsidiaries adopt RMB yuan as currency used in bookkeeping. The consolidated financial statement of the Company is listed in RMB yuan.

4. Accounting basis and valuation

Accounting is based on the accrual system. Unless otherwise specified, all assets are measured at historical cost.

5. Recognition of cash and cash equivalents

The cash presented in the Cash Flow Statement comprises cash on hand and the deposits available for payment at any given time. Cash equivalents presented in the Cash Flow Statement are short-term (mature within three months), highly liquid investments that are readily convertible into cash and almost have no risk of change in value.

6. Foreign currency accounting and translation of financial statements in foreign currency

(1) Foreign currency accounting

Our foreign currency transactions are converted into RMB yuan at the spot exchange rate on the days the transactions occurred; the monetary foreign currency items on the balance sheet date are converted into RMB yuan at the spot exchange rate on the balance sheet date. The exchange gains and losses arising from these transactions that occurred in the production and operation period are recognized as financial expenses; those related to the acquisition and construction of fixed assets, oil and gas assets and other assets in line with the capitalization condition are handled according to relevant provisions on borrowing costs; and those occurred in the period of liquidation are recognized as liquidation gain or loss.

A non-monetary foreign currency asset measured at historical cost is converted into RMB yuan at the spot exchange rate on the trading day, with its amount in RMB yuan unchanged. A non-monetary foreign currency asset measured at fair value is converted into RMB yuan at the spot exchange rate for the date when the fair value is determined, with the difference thus caused recognized in profit or loss for the current period as a change in fair value.

(2) Translation of financial statement in foreign currency

All asset and liability items presented in Foreign Currency Balance Sheet are converted into RMB yuan at spot exchange rate on the balance sheet date; the owner's equity other than "undistributed profit" is converted at spot exchange rate when occurred. Foreign incomes and expenses presented in the Income Statement are generally converted at the average of reference rates for RMB announced by PBC on a daily basis over the period of time covered by the income statement. The exchange difference of Foreign Currency Balance Sheet arising from the conversions mentioned above is separately listed in "Converted Difference in Foreign Currency Statement" under the owner's equity. The exchange difference arising from monetary foreign currency items materially invested in foreign operation due to the change in exchange rate is also separately listed in the owner's equity when preparing consolidated financial statements. When disposing foreign operation, the related exchange difference is carried, in proportion, into profit or loss for the current period during which the operation is disposed.

The opening balances of cash and cash equivalents in the Foreign Currency Cash Flow Statement are converted at statement's initial exchange rate; and the closing balances are converted at the spot exchange rate on the balance sheet date. And other items are generally converted at the arithmetic average of reference rates for RMB announced by PBC on a daily basis over the period of time covered by the cash flow statement. The translation difference of cash flow statement arising from the conversions mentioned above is presented separately in "Effect of the Change of Exchange Rate on Cash".

7. Financial instruments

Financial instruments include cash at bank and on hand , equity securities other than those classified as long-term equity investments, receivables, payables, borrowings, debentures payable and share capital, etc.

(1) Classification of financial assets

Financial assets are classified, upon initial recognition, by form of management and cash flow characteristics into: Financial assets measured at amortized cost, financial assets measured at fair value with changes in fair value recognized in other comprehensive income, and financial assets measured at fair value with changes in fair value recognized in profit or loss for the current period.

(2) Classification of financial liabilities

Financial liabilities are classified into: Financial liabilities measured at fair value with changes in fair value recognized in profit or loss for the current period and financial liabilities measured at amortized cost.

(3) Impairment of financial instruments

For financial assets measured at amortized cost, contractual assets, and debt investments measured at fair value with changes in fair value recognized in other comprehensive income, impairment losses and provisions should be based on expected credit loss.

8. Inventories

(1) Classification of inventories

Inventories include raw materials, work in progress and semi-finished goods, finished goods, goods sold, etc.

(2) Measurement method of cost of inventories

Inventories are carried at the actual cost when acquired, using perpetual inventory method; actual cost of delivered or sold inventories are carried at weighted average.

(3) Amortization of low-value consumption goods and packing materials

Low-value consumption goods and packing materials are amortized using one-off amortization method when they are put into use.

(4) Year-end inventory valuation, impairment recognition and provision

Year-end inventories are carried at the lower of cost and net realizable value. Based on wall-to-wall inventory at the end of the period, provision for inventory write-down is retained at the difference between cost and net realizable value of inventory on the individual item basis in the following circumstances, where the net realizable value is lower than the cost. For inventory of large quantity and low unit price, provision for inventory write-down may be recognized by category. The net realizable value is defined by selling price deducts estimated complete cost, selling cost and related tax.

a. The market price of inventory continues to fall with no hope of recovery in the foreseeable future;

b. The product using the raw material is manufactured at a cost higher than the selling price thereof;

c. The existing raw material fails to meet the needs of new products as a result of product upgrading and the market price of such raw material is lower than its carrying cost;

d. The goods or services are obsolete or there is a preference-driven change in market needs, resulting in a gradual decline in the market price thereof;

e. Other circumstances demonstrating a substantial impairment of inventory.

9. Long-term equity investments

(1) Determination of investment costs

For a long-term equity investment obtained through a combination of entities under common control, the carrying value of the owner's equity in the combined entity stated in the ultimate controlling party's consolidated financial statements should be recognized on the combination date as investment cost.

For a long-term equity investment obtained through a combination of entities not under common control, the combination cost should be accounted for the cost of the long-term equity investment.

For long-term equity investments obtained in a manner other than combination of entities, if a long-term equity investment is obtained through payment of cash, the actual purchase price thus paid should be recognized as initial cost of the long-term equity investment; if a long-term equity investment is obtained through issuing equity securities, the fair value of the equity securities being issued should be recognized as initial cost of investment.

(2) Subsequent measurement and profit or loss recognition

a. Long-term equity investments under cost method

The Company's long-term equity investments in its subsidiaries are accounted for using the cost method. Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognizes its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

b. Long-term equity investments under equity method

Long-term equity investments in associates and joint ventures are accounted for using the equity method. When the initial cost of investment is bigger than the proportionate share of the fair value of the investee's identifiable net assets at the time of investment, no adjustment to the initial cost of such long-term equity investment is made; When the initial cost of investment is smaller than the proportionate share of the fair value of the investee's identifiable net assets at the time of investment, the gain in profit is recognized.

The investor's share of the net profit or loss and other comprehensive income of the investee is recognized in investment income and other comprehensive income respectively, along with the adjustment to the carrying amount of the long-term equity investment; distributions of profits or cash dividends received from the investee reduce the carrying amount of the investment; adjustments in the carrying amount of the investment for the changes in the owner's equity other than those arising from the investee's net profit or loss, other comprehensive income and profit distribution are necessary and recognized as owner's equity.

The investor's share of the net profit or loss of the investee is based on the fair value of the investee's net identifiable assets upon acquisition of the investment and recognized after adjustment to the investee's net profit made in accordance with the investor's accounting policies and fiscal periods. Accounting of investments held should be based on the investor's share of the amount of net profit, other comprehensive income and other changes in the owner's equity listed in the investee's consolidated financial statements.

For recognition of investment income, the investor's share of the unrealized profits or losses from internal transactions with associates and joint ventures should be written off. Unrealized loss from internal transactions with the investee, if accounted for as part of asset impairment, should be recognized in full amount.

The investor's share of the loss of the investee should be accounted for as follows: i) writing down the carrying value of the long-term equity investment; ii) in the event that the carrying value of such long-term equity investment is not enough for write-down, investment loss should be recognized as much as the carrying value of long-term interests that, in substance, form part of the net investment in the investee to write down the carrying value of long-term receivables, etc.; and iii) additional obligations assumed by the investor under the investment contract or agreement should be recognized as estimated liabilities and taken into investment loss of the current period. If the investee makes a profit in subsequent periods, the carrying amount of estimated liabilities should be written down in reverse sequence after deduction of the share of unrecognized loss, and the carrying value of long-term interests that, in substance, form part of the net investment in the investee as well as the carrying value of the long-term equity investment should be restored with investment income recognized accordingly.

c. Disposal of long-term equity investments

For disposal of long-term equity investments, the difference between the carrying amount and the actual purchase price is recorded into profit or loss for the current period.

Upon disposal of a long-term equity method investment, all amounts previously recognized in the Company's other comprehensive income in relation to that investment are accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The changes in the owner's equity other than those arising from the investee's net profit or loss, other comprehensive income and profit distribution are transferred to profit or loss for the current period in proportion.

If the investor loses joint control or significant influence over an investee for reasons such as partial disposal of the equity investment, any retained interest should be recognized in profit or loss for the current period, and measured as a financial instrument at the difference between fair value and carrying value at the date when joint control or significant influence is lost. All amounts previously recognized under the equity method as other comprehensive income in relation to such equity investment are accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The changes in the owner's equity other than those arising from the investee's net profit or loss, other comprehensive income and profit distribution are transferred to profit or loss for the current period.

In the event that the investor loses control over an investee for reasons such as partial disposal of the equity investment, when preparing separate financial statements, equity accounting is required for retained interest with joint control or significant influence over the investee, and adjusted on the basis of equity accounting as would have been required upon acquisition of such interest; retained interest without joint control or significant influence over the investee should be recognized in profit or loss for the current period and measured as a financial instrument at the difference between fair value and carrying value at the date when control is lost.

In the event that equity interest being disposed of has been acquired through a combination of entities for reasons such as additional investment, when preparing separate financial statements, all amounts previously recognized under the equity method as other comprehensive income and other owner's equity in relation to such equity investment should be transferred in proportion, if retained interest is accounted for at cost or under the equity method; all amounts previously recognized as other comprehensive income and other owner's equity should be transferred entirely, if retained interest is recognized and measured as a financial instrument.

(3) Determination of the basis for joint control and significant influence over the investee

Joint control means the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the investee have rights to the net assets of the investee.

Significant influence means the power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies. For an investor with significant influence over the investee, the investee is considered an associate of the investor.

(4) Impairment test and provisions for impairment

At the end of the year, the long-term equity investment is reviewed and the provision for the impairment of the long-term equity investment is retained against the difference between the recoverable amount and the carrying value. Once the provision for the impairment of the long-term equity investment is retained, it should not be reversed during subsequent accounting periods.

For non-marketable long-term equity investment, impairment is likely in the following circumstances:

a. There is a change in the political or legal environment of the invested business, such as an enactment of or amendment to the tax and trade regulations, which may result in huge losses of the invested business;

b. The goods or services of the invested business are obsolete or there is a change in market needs, resulting in a serious deterioration in the financial conditions of the invested business;

c. The invested business has lost its competitive edge due to a major technological change etc. in the sector, resulting in a serious deterioration in the financial conditions of the invested business such as clean-up or liquidation;

d. Other circumstances demonstrating a substantial failure of the invested business to generate economic benefits for the Company.

10-1.Revenue (old standards)

Revenue arising from sale of goods, rendering of services, royalties and construction contracts, etc. are recognized as follows:

(1) Sale of goods

The seller has transferred to the buyer the significant risks and rewards of ownership; the seller retains neither continuing managerial involvement to the degree generally associated with ownership, nor effective control over the goods already sold; the amount of revenue can be measured reliably; the economic benefits associated with the transaction are likely to flow into the seller, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(2) Rendering of services

Revenue should be recognized by reference to the stage of completion of the transaction at the balance sheet date if the amount of revenue can be measured reliably.

(3) Royalties

Provided that the economic benefits are likely to flow into the enterprise and the amount of revenue can be measured reliably, revenue should be recognized in accordance with the time and method specified in the relevant contract or agreement.

10-2.Revenue (new standards)

Revenue should be recognized when a performance obligation in the contract is satisfied, i.e. control of goods or services is passed to the customer. Where a contract has multiple performance obligations, the transaction price should be allocated to these performance obligations upon the effective date of contract by reference to the relative proportion of standalone selling prices of promised goods or services and revenue should be measured accordingly.

11. Government grants

(1) Types of government grants

Government grants comprise mainly of treasury funding, interest subsidies, tax rebates and free allocation of non-monetary assets etc.

(2) Acknowledgment of government grants

The Company has acknowledged government grants that it ineligible for and granted.

(3) Accounting treatment of government grants

Asset-related government grants are recognized as deferred income which is taken into profit or loss for the current period appropriately and systematically during the lifespan of related asset.

Income-related government grants used to recover relevant costs, expenses or losses in the subsequent period are recognized upon receiving as deferred income which is taken into profit or loss for the current period during the verification of related costs, expenses or losses; otherwise, recognized as non-operating income, or used to write down relevant costs, expenses or losses; those used to recover relevant costs, expenses and losses incurred by the Company are directly recognized as profit or loss for the current period; otherwise, recognized as non-operating income, or used to write down relevant costs, expenses or losses.

(4) Measurement of government grants

Government grants in the form of monetary assets are measured at the amounts received or receivable. Government grants in the form of non-monetary assets are measured at fair value.

12. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are recognized at (temporary) difference between the carrying value of an asset or liability and the tax base of such asset or liability. Deductible losses and tax credits that are carried forward to reduce taxable income in future years under the tax provisions are deemed temporary differences and accounted for deferred tax assets. Deferred tax assets and deferred tax liabilities as of the balance sheet date are measured at the applicable rate for the period when such assets or liabilities are estimated to be recovered or settled.

Deferred tax assets are limited to the taxable income that is likely to be obtained to reduce temporary differences, deductible losses and tax credits. For recognized deferred tax assets, when it is unlikely to obtain sufficient taxable income to offset against deferred tax assets by the future period, a write-down of the carrying amount of deferred tax assets is necessary. If it is likely to obtain sufficient taxable income, the write-down amount should be reversed.

Deferred tax assets and deferred tax liabilities are presented on a net basis, provided that the following conditions are satisfied:

(1) Deferred tax assets and deferred tax liabilities are related to the income tax imposed by the same taxing authority on the same entity in the Company.

(2) Such entity in the Company has the legal right to offset current tax assets against current tax liabilities.

13. Changes in accounting policies during the reporting period

The Company has implemented since January 1, 2019 *Accounting Standards for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement, Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets, Accounting Standards for Business Enterprises No. 24 – Hedge Accounting,* and *Accounting Standards for Business Enterprises No. 37 – Financial Instruments: Presentation* (collectively, "New Financial Instruments Standards") as amended by the Ministry of Finance in 2017; and *Accounting Standards for Business Enterprises No. 7 – Exchange of Non-monetary Assets* as amended by the Ministry of Finance in 2019; and *Accounting Standards for Business Enterprises No.12 – Debt Restructuring* as amended by the Ministry of Finance in 2019.

In addition, the Ministry of Finance announced on April 30, 2019 the issuance of *Model Financial Statements for Business Enterprises 2019* (CK [2019] No.6) and *Model Consolidated Financial Statements 2019* (CK [2019] No.16), in accordance with which we have revised the model financial statements for business entities.

(1) The impact of New Financial Instruments Standards

The new standards on financial instruments require retroactive adjustment to financial instruments pending final recognition as on the effective date in the event of discrepancy between the previously recognized and measured items and the revised requirements. For financial data reported in the comparative statements for prior periods, retroactive adjustment is not required for inconsistency with the revised requirements. The Company has recognized the cumulative effect of initial application as an adjustment to the opening balance of retained earnings and other `comprehensive income.

(2) The impact of new standards on the exchange of non-monetary assets and debt restructuring

Adoption of these standards has no significant impact during this reporting period.

(3) Implementation of the new model financial statements

The Company has prepared its financial statements in accordance with the new model financial statements and the changes to items previously reported in the financial statements have been adjusted under *Accounting Standards for Business Enterprises No. 30 – Presentation of Financial Statements* and other applicable regulations for comparative data in the comparable periods.

B. Main Types of Taxes

1. Corporate income tax

In accordance with the *Directive on Tax Policy Issues in Relation to the Further Implementation of the Western China Development Strategy* (CS [2011] NO.58) announced by the Ministry of Finance, the General Administration of Customs and the State Taxation Administration, business establishments in the industries encouraged to develop in the western region are entitled to a reduced corporate income tax rate of 15% from January 1, 2011 to December 31, 2020. This preferential rate of 15% is applicable to the calculation and payment of corporate income tax of some of the Company's branches and subsidiaries located in western China.

Under the *Corporate Income Tax Law, Implementing Regulations of the Corporate Income Tax Law, Administrative Measures for the Determination of High and New Technology Enterprises* and *Guidelines for Eligibility Management of High and New Technology Enterprises,* the corporate income tax rate applicable to a high and new tech company is 15%. The Company's subsidiaries with the High and New Technology Enterprise Certificate are eligible for the preferential tax rate of 15%.

2. Value-added tax

In accordance with the *Directive on the Relevant Policies for Deepening Value-added Tax Reform* ([2019] No.39 issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs), the new tax rates of 13% and 9%, instead of 16% and 10%, are applicable to taxable sales and imports respectively, effective since April 1, 2019.

In accordance with the *Directive on the Relevant Policies for Deepening Value-added Tax Reform* ([2019] No.39 issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs), taxpayers in producer and consumer services (including financial services) are eligible for incremental tax credit from April 1, 2019 to December 31, 2021 by adding 10% to the input tax deductible in the current period.

In accordance with the *Directive on Proportional Refund of Import VAT on Natural Gas Imports from 2011 to 2020 and Central Asia Natural Gas Imports before 2010* (CGS [2011] No.39) issued by the Ministry of Finance, the General Administration of Customs and the State Taxation Administration, when the cost of imported natural gas from the permitted projects is higher than the government-regulated natural gas sales price, the Company is eligible for import VAT refund in proportion to the difference between the import cost and the regulated sales price.

In accordance with the *Notice on Printing and Distributing VAT Management Measures for Oil and Gas Enterprises* (CS [2009] No.8) and the *Supplementary Directive on VAT-related Issues for Oil and Gas Enterprises* (CS [2009] No.97) issued by the Ministry of Finance and the State Taxation Administration, the Company is subject to VAT on production-related services provided in the process of producing oil and gas and exempt from VAT on the transfer or supply of taxable goods and services for production between the oil and gas field companies and the non-independent accounting units.

Overseas subsidiaries are subject to the applicable local tax rates.

3. Surtaxes and surcharges

The urban maintenance and construction tax rate is 1%, 5% or 7% of the amounts actually paid for value-added tax and consumption tax. The rate of education surcharge is 3% of the amounts actually paid for value-added tax and consumption tax.

4. Consumption tax

In accordance with the *Directive on Increases in Fuel Consumption Tax* (CS [2015] No.11) announced by the Ministry of Finance and the State Taxation Administration, the unit consumption tax amount has increased from RMB 1.40 to RMB 1.52 per liter for gasoline, naphtha, solvent oils and lubricants, and from RMB 1.10 to RMB 1.20 per liter for diesel, jet kerosene and fuel oils, effective since January 13, 2015. The suspension of consumption tax remains unchanged for jet kerosene.

In accordance with the *Directive on Consumption Tax Exemption for Oil Consumption in the Production of Oil Products* (CS [2010] No.98) announced by the Ministry of Finance and the State Taxation Administration, the Company has been exempt from consumption tax since January 1, 2009 on self-produced refined oils used as fuel, power and raw materials to produce oil products.

In accordance with the *Provisional Directive on Consumption Tax Refund (Exemption) for Naphtha and Fuel Oil Used in Producing Ethylene and Aromatic Hydrocarbons* ([2012] No.36) issued by the State Taxation Administration, the Company is exempt from consumption tax on self-produced naphtha and fuel oil for continuous production of ethylene and aromatic hydrocarbons, and also exempt from consumption tax on self-produced naphtha and fuel oil sold under the dedicated direct supply programs announced by the State Taxation Administration.

5. Resources tax

In accordance with the *Directive on Adjusting Resources Tax Policies for Crude Oil and Natural Gas* (CS [2014] No.73) announced by the Ministry of Finance and the State Taxation Administration, the rate of mineral resources compensation fee has been reduced to zero and the resources tax rate has been raised from 5% to 6% for crude oil and natural gas, effective since December 1, 2014. CNPC is eligible for resources tax exemption for crude oil and natural gas used for heating during the process of heavy oil transportation in oilfields and eligible for a resources tax reduction of 40% for heavy oil, high pour point oil and high sulfur natural gas, 30% for tertiary recovery, 20% for low abundance oil and gas fields (on a temporary basis) and 30% for deep-water oil and gas operations.

In accordance with the *Directive on Cutting Resources Tax on Shale Gas* (CS [2018] No.26) announced by the Ministry of Finance and the State Taxation Administration, resources tax on shale gas is cut by 30% (from the standard rate of 6%) from April 1, 2018 to March 31, 2021 to boost shale gas production and increase gas supplies.

6. Special oil gain levy

In accordance with the *Directive on Raising the Threshold for Special Oil Gain Levy* (CS [2014] No.115) issued by the Ministry of Finance, with the approval of the State Council, the Ministry of Finance has decided to raise the threshold for special oil gain levy to USD 65 per barrel, effective from January 1, 2015, with the five-level progressive ad valorem rates remaining in place.

7. Personal income tax

The employees are responsible for their own income tax, which is withheld and remitted by the Company.