

Financial Statements

Consolidated Balance Sheet

million RMB yuan

Item	2019	2020	2021
Current assets			
Cash and cash equivalent	235,219.65	229,805.98	271,391.44
Funds lent*	218,250.12	185,735.05	231,062.05
Financial assets held for trading	71,433.97	90,336.79	106,791.43
Derivative financial assets	216.93	1,517.35	398.49
Notes receivable	511.90	705.98	452.16
Accounts receivable	102,826.89	81,434.34	84,149.57
Receivables under financing	7,562.56	8,261.93	2,540.43
Prepayments	158,604.29	202,726.16	153,383.54
Premium receivable*	94.12	69.62	101.22
Reinsurance accounts receivable*	615.50	845.91	797.39
Reinsurance reserves receivable*	1,291.31	1,642.82	1,771.00
Other receivables	30,613.57	36,270.47	57,579.58
Financial assets purchased under resale agreements*	10,957.11	24,700.22	62,059.09
Inventories	257,020.86	177,126.67	189,004.94
Contract assets	0.01	59,720.40	74,258.89
Assets held for sale	-	42,612.74	-
Non-current assets maturing within one year	168,726.62	140,145.28	197,170.16
Other current assets	132,878.14	144,217.31	111,857.78
Total current assets	1,396,823.55	1,427,875.02	1,544,769.16
Non-current assets			
Loans and advances issued*	29,149.65	116,262.45	101,454.52
Debt investments	93,385.88	95,439.55	70,676.25
Other debt investments	40,430.82	42,224.44	21,161.19
Long-term accounts receivable	54,294.96	52,329.15	47,579.43
Long-term equity investments	154,018.37	292,118.13	317,945.69
Other investments in equity instruments	10,778.95	9,081.59	8,213.47
Other non-current financial assets	42,810.70	53,528.19	33,662.27
Investment properties	2,855.36	2,475.44	2,467.83
Fixed assets	905,281.70	585,065.95	583,336.40
Construction in progress	277,849.67	252,217.09	259,819.94
Productive biological assets	0.15	-	0

Consolidated Balance Sheet (continued)

million RMB yuan

Item	2019	2020	2021
Oil and gas assets	970,722.41	944,188.74	952,596.50
Right-of-use assets	-	-	45,834.09
Intangible assets	100,875.87	101,544.28	105,979.60
Development expenditure	1,251.68	963.68	1,145.53
Goodwill	42,905.99	8,218.11	8,077.95
Long-term deferred expenses	46,604.68	52,474.45	35,756.12
Deferred tax assets	33,542.12	20,542.86	21,694.34
Other non-current assets	32,159.61	32,124.71	30,263.90
Total non-current assets	2,838,918.57	2,660,798.81	2,647,665.02
Total assets	4,235,742.12	4,088,673.83	4,192,434.18
Current liabilities			
Short-term loans	102,286.47	71,623.21	69,037.11
Borrowings from central bank*	1,331.12	2,624.23	7,887.49
Borrowing funds*	65,139.67	50,392.82	49,055.04
Derivative financial liabilities	3,551.41	4,698.08	3,640.25
Notes payable	41,554.65	60,397.70	68,562.99
Accounts payable	379,410.75	331,213.44	362,295.11
Receipts in advance	32,884.98	5,932.95	2,718.61
Contractual liabilities	81,784.64	114,449.18	105,583.80
Funds from sales of financial assets with repurchase agreement*	30,324.45	26,671.98	32,748.93
Deposits from customers and interbank*	198,436.48	200,083.54	204,244.40
Funds arising from acting trading of securities*	0.01	0.01	0.01
Employee benefits payable	44,763.16	38,931.87	46,203.38
Taxes payable	78,407.69	72,405.53	88,123.36
Other payables	79,106.03	84,212.70	78,730.86
Handling charges and commissions payable*	29.85	40.06	27.59
Reinsurance accounts payable*	582.44	719.83	592.40
Liabilities held for sale	-	2,261.52	-
Non-current liabilities due within one year	72,592.67	59,828.46	94,871.38
Other current liabilities	88,604.46	57,946.62	54,875.37
Total current liabilities	1,300,790.93	1,184,433.73	1,269,198.08

Consolidated Balance Sheet (continued)

million RMB yuan

Item	2019	2020	2021
Non-current liabilities			
Reserve for insurance contracts*	3,691.38	4,461.50	5,651.65
Long-term loan	21,146.92	54,104.05	91,473.65
Debentures payable	302,950.55	333,188.51	244,297.40
Lease liabilities	-	-	28,321.54
Long-term payables	5,668.89	5,021.67	12,611.61
Long-term employee remuneration payable	1,613.01	1,515.78	1,481.84
Accrued liabilities	164,026.22	139,443.84	150,091.81
Deferred income	23,790.49	12,808.10	10,500.30
Deferred tax liabilities	35,287.71	31,310.22	44,285.11
Other non-current liabilities	3,156.24	3,144.16	2,808.28
Total non-current liabilities	561,331.41	584,997.83	591,523.19
Total liabilities	1,862,122.34	1,769,431.56	1,860,721.27
Owners' equity			
Paid-up capital (or share capital)	486,855.00	486,855.00	486,855.00
Other equity instruments	104,727.09	147,702.14	102,994.08
Capital reserve	275,435.62	255,441.43	269,023.34
Other comprehensive income	-14,870.81	-43,451.99	-53,658.65
Special reserve	32,439.08	17,690.80	16,243.69
Surplus reserve	1,084,354.66	1,084,371.23	1,085,311.85
General risk provisions*	11,663.96	11,857.50	12,585.14
Undistributed profit	-10,996.23	18,121.74	70,812.45
Total equity attributable to CNPC	1,969,608.37	1,978,587.85	1,990,166.90
Minority interest	404,011.41	340,654.42	341,546.01
Total owners' equity	2,373,619.78	2,319,242.27	2,331,712.91
Total liabilities and owners' equity	4,235,742.12	4,088,673.83	4,192,434.18

Consolidated Income Statement

million RMB yuan

Item	2019	2020	2021
1. Revenue	2,771,434.92	2,087,146.80	2,807,275.07
Including: Operating revenue	2,747,058.33	2,064,488.05	2,781,399.49
Interest income*	21,834.38	20,215.08	22,740.06
Premiums earned*	707.50	696.22	1,520.17
Handling charges and commission income*	1,834.71	1,747.44	1,615.35

Consolidated Income Statement (continued)

million RMB yuan

Item	2019	2020	2021
2.Total cost of operations	2,628,014.71	2,029,239.85	2,629,728.10
Including: Operating cost	2,139,324.00	1,587,693.90	2,142,204.38
Interest expenses*	10,372.70	8,884.92	8,398.94
Handling charges and commission expenses*	220.44	278.62	1,566.51
Net expenditure for compensation payments*	400.64	505.07	577.28
Net amount of provision for insurance contract*	340.35	305.26	1,011.95
Reinsurance costs*	133.29	180.61	158.54
Tax and surcharges	240,296.07	205,249.12	239,683.39
Selling expenses	83,884.02	79,366.75	79,404.47
Administrative expenses	99,857.52	79,018.52	84,406.40
R&D expenses	21,752.70	22,759.34	25,291.79
Finance expenses	10,262.19	25,401.03	22,442.15
Others	21,170.79	19,596.71	24,582.30
Add: Other gains	13,021.95	11,530.91	15,585.58
Gain from investment (Loss is represented by "-")	19,808.26	52,418.83	46,223.07
Exchange gain (Loss is represented by "-")*	62.43	105.56	46.95
Net exposure gains (Loss is represented by "-")	-	-	-
Gains from change in fair value (Loss is represented by "-")	1,229.86	3,523.43	6,397.71
Credit impairment loss (Loss is represented by "-")	-6,071.67	-796.91	-5,773.76
Impairments loss of assets (Loss is represented by "-")	-26,895.70	-29,625.36	-36,561.29
Gain on disposal of assets (Loss is represented by "-")	1,462.36	1,829.43	1,501.47
3.Operating profit (Loss is represented by "-")	146,037.70	96,892.84	204,966.70
Add: Non-operating revenue	12,141.58	16,605.27	7,976.85
Less: Non-operating expenses	37,815.58	25,978.38	46,466.81
4. Earnings before taxes (Loss is represented by "-")	120,363.70	87,519.73	166,476.74
Less: Income tax expenses	60,772.82	37,248.11	66,213.42
5.Net income (Net loss is represented by "-")	59,590.88	50,271.62	100,263.32
(1) Classified by continuity of operations:			
Net income from continuous operation	59,590.88	50,271.62	100,263.32
Net income from discontinued operation	-	-	-
(2) Classified by ownership:			
Net income attributable to CNPC	30,695.67	31,568.74	62,165.26
Minority interest	28,895.21	18,702.88	38,098.06

Note: Those with the * symbol are line items for financial companies

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 the *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 of each calendar year.

3. Standard accounting currency

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

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), and 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 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 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 at the spot exchange rate on the trading day, with its amount in RMB unchanged. A non-monetary foreign currency asset measured at fair value is converted into RMB at the spot exchange rate for the date when the fair value is determined, with the difference 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 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. Inventory

(1) Classification of inventory

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

(2) Measurement method of cost of inventories

Inventories are carried at the actual cost when acquired, using perpetual inventory method; the 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 the 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. Contractual asset

The right to receive consideration for goods transferred to the customer that depends on factors other than the passage of time is recognized as a contract asset. The unconditional right (that is, only dependent on the passage of time) to receive consideration from the customer is presented separately as a receivable.

10. 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 the investment cost.

For a long-term equity investment obtained through a combination of entities not under common control, the combined cost should be accounted as 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 the payment of cash, the actual purchase price thus paid should be recognized as the 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 the initial cost of investment.

(2) Subsequent measurement and profit or loss recognition

a. Long-term equity investments by cost method

The Company's long-term equity investments in its subsidiaries are accounted by 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 by equity method

Long-term equity investments in associates and joint ventures are accounted by 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 the 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 the 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 net profit, other comprehensive income and other changes in the owner's equity listed in the investee's consolidated financial statements.

The investor's share of the loss of the investee should be accounted 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 the investment income recognized accordingly.

c. Disposal of long-term equity investments

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

Upon the 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 the fair value and carrying value on the date of loss of control.

In the event that the 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 the 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.

Non-marketable long-term equity investment may be impaired 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 serious deterioration in the financial conditions of the invested business;
- c. The invested business has lost its competitive edge due to major changes in production technology in the sector, resulting in 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.

11. Right-of-use assets

The right-of-use asset is initially measured at cost, including: the initial measurement of the lease liability; the lease payments paid on or before the commencement date of the lease term, if there is a lease incentive, minus the amount of the lease incentive received; initial direct costs incurred by lessee; costs that are expected to be incurred to dismantle and remove the leased asset, restore the site on which the leased asset is located, or restore the leased asset to the condition agreed upon in the terms of the lease; excluding costs incurred to produce inventory.

12. Lease liability

The lease liability is initially measured at the present value of the unpaid lease payments at the commencement date of the lease term. When calculating the present value of lease payments, the interest rate implicit in the lease is used as the discount rate; if the interest rate implicit in the lease cannot be determined, the incremental borrowing rate is used as the discount rate. Lease payments include: fixed payments and in-substance fixed

payments net of any amount related to lease incentives; variable lease payments that depend on an index or ratio; lease payments include the exercise price of the purchase option where there is reasonable certainty that the option will be exercised, the exercise price of the option; where the lease term reflects that the option to terminate the lease will be exercised, the lease payments include the amount payable to exercise the option to terminate the lease; the amount expected to be due based on the residual value of the guarantee provided.

13. Revenue

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

14. 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 will acknowledge the government grants that it is eligible for and has received.

(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, 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, 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.

15. 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.

16. Lease

A lease is a contract whereby the lessor transfers the right to use the asset to the lessee for consideration within a certain period of time. On the contract inception date, assess whether the contract is a lease or contains a lease. A contract is or contains a lease if a party to a contract transfers its right to control the use of one or more identified assets for a period of time in exchange for consideration. To determine whether a contract transfers the right to control the use of an identified asset over a period of time, the following assessments should be made:

(1) Whether the contract involves the use of the identified asset. An identified asset may be specified explicitly by the contract or implicitly when the asset is available to the customer and the asset is physically distinguishable, or if some part of the capacity or other part of the asset is physically indistinguishable but substantially represents the full capacity of the asset, so that the customer obtains almost all the economic benefits arising from the use of the asset. An asset is not an identified asset if the supplier of the asset has a substantial right to substitute the asset throughout the period of use;

(2) Whether the lessee is entitled to almost all the economic benefits arising from the use of the identified assets during the period of use;

(3) Whether the lessee has the right to direct the use of the identified assets during the period of use.

If the contract contains multiple separate leases at the same time, the lessee and the lessor shall split the contract and conduct accounting treatment for each separate lease. If the contract contains both lease and non-lease components, the lessee and the lessor will split the lease and non-lease components. When splitting the lease and non-lease components included in the contract, the lessee allocates the contract consideration according to the relative proportion of the sum of the stand-alone prices of the lease components and the stand-alone prices of the non-lease components.

(1) The Group as the lessee

On the commencement date of the lease term, a right-of-use asset and a lease liability are recognized for the lease. The right-of-use asset is initially measured at cost, including the initial measurement of the lease liability, lease payments made on or before the commencement date of the lease term (net of any amount related to the lease incentives received), initial direct costs incurred, and costs that are expected to be incurred to dismantle and remove the leased asset, restore the site on which the leased asset is located, or restore the leased asset to the condition agreed upon in the terms of the lease.

Right-of-use assets are depreciated using the straight-line method. If it can be reasonably determined that the ownership of the leased asset will be obtained when the lease term expires, depreciation will be accrued over the remaining useful life of the leased asset. Otherwise, the leased asset is depreciated over the shorter of the lease term and the remaining useful life of the leased asset.

The lease liability is initially measured at the present value of the unpaid lease payments at the commencement date of the lease term, discounted at the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be determined, the incremental borrowing rate is used as the discount rate.

(2) The Group as the lessor

On the lease commencement date, the Group classifies leases into finance leases and operating leases. A finance lease is a lease that transfers substantially all of the risks and rewards associated with ownership of the leased asset, regardless of whether the ownership is ultimately transferred. Operating leases refer to leases other than finance leases.

17. Changes in Accounting Policies

The Company has implemented since January 1, 2021 the *Accounting Standards for Enterprises No. 21 - Leases* (the "New Lease Standards") as amended by the Ministry of Finance in 2018.

In the event of any discrepancy between the new lease standards and the former lease standards prior to January 1, 2021, adjustments based on the cumulative effect of initial application of the new lease standards have been made on the retained earnings and the amount of other related items in the financial statements as of January 1, 2021. No adjustments to the information of these comparative periods have been made.

B. Main Types of Taxes

1. Corporate income tax

Corporate income tax shall be calculated on the basis of taxable income and the applicable tax rate shall be 15% and 25%.

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. In accordance with the *Announcement on Continuing the Corporate Income Tax Policy for the Western Development Strategy* ([2020] No. 23) jointly issued by the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission, business establishments in the encouraged industries in the western region are still entitled to the reduced corporate income tax rate of 15% from January 1, 2021 to December 31, 2030.

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* (GKFH [2016] No.32) and *Guidelines for Eligibility Management of High and New Technology Enterprises* (GKFH [2016] No.195), 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%.

The Ministry of Finance and the State Administration of Taxation jointly issued the *Announcement on Further Improving the Policy of Pre-Tax Super-Deduction of Research and Development Expenses* (Announcement No. 13 of 2021), stipulating that, for manufacturing companies, the super deduction ratio of R&D expenses increases from 75% to 100% from January 1, 2021 to reduce the tax burden of manufacturing enterprises.

The overseas investment projects and subsidiaries of CNPC are subject to the applicable local tax rates in accordance with the contracts and relevant tax regulations of the host country.

2. Value-added tax (VAT)

The taxable amount in calculating the VAT is based on the value added. The VAT payable is calculated by multiplying the taxable sales amount by the applicable tax rate and deducting the input tax deductible in the current period. The applicable tax rates are 6%, 9%, or 13%.

According to the *Notice on the Import Tax Policy for the Exploration, Development and Utilization of Energy Resources during the 14th Five-Year Plan Period* (CGS [2021] No. 17) issued jointly by the Ministry of Finance, the State Administration of Taxation, and the General Administration of Customs, from January 1, 2021 to December 31, 2025, for the construction of cross-border natural gas pipelines and imported LNG receiving, storage and transportation facilities approved by the National Development and Reform Commission, as well as the natural gas (including pipeline gas and liquefied natural gas) imported from the expansion projects of imported LNG receiving, storage and transportation facilities approved by the provincial government, a certain proportion of the import value-added tax will be refunded.

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 of production 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 *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

The taxable amount in calculating the consumption tax is based on the sales volume of taxable products. The amount of the consumption tax payable is RMB 1.52 per liter for gasoline, naphtha, solvent oils and lubricants, and RMB 1.20 per liter for diesel and fuel oils.

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. Resource tax

The taxable amount in calculating the resource tax is based on the sales volume of taxable resource products such as crude oil, natural gas and shale gas, and the applicable tax rate ranges from 1% to 6%.

In accordance with the *Resource Tax Law of the People's Republic of China*, CNPC is eligible for resource tax exemption for crude oil and natural gas used for heating during the process of crude oil production and transportation in oilfields and eligible for a resource tax reduction of 20% for crude oil and natural gas produced from low abundance fields; 30% for sour gas, and crude oil and natural gas produced by means of tertiary recovery or deep-water operations; and 40% for heavy oil and high pour point oil.

In accordance with the *Directive on Cutting Resource Tax on Shale Gas* (CS [2018] No.26) announced by the Ministry of Finance and the State Taxation Administration, resource 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. On March 15, 2021, the Ministry of Finance and the State Administration of Taxation jointly issued the *Announcement on Extending the Implementation Period of Some Preferential Tax Policies* (MOF/SAT Announcement No. 6 [2021]); after the expiry of the existing preferential tax policies on March 31, 2021, the implementation period of such policies will be extended to December 31, 2023.

6. Special oil gain levy

The taxable amount in calculating the special oil gain levy is based on the excess income from the domestic crude oil sales with price exceeding a certain level, and the applicable tax rate ranges from 20% to 40%.

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.