Financial Statements

Consolidated Balance Sheet

million RMB yuan

	2015	2016	2017
Current assets			
Cash and cash equivalent	342,772.93	384,370.93	**402,825.97**
Funds lent	3,463.90	2,535.00	**20,625.50**
Financial assets at fair value through profit or loss	8,386.01	9,249.11	**17,995.07**
Derivative financial assets	708.88	843.09	**453.01**
Notes receivable	10,181.47	12,940.35	**20,834.00**
Accounts receivable	122,464.89	118,138.55	**115,773.81**
Prepayments	252,184.67	262,372.58	**220,613.45**
Premium receivable	83.15	93.75	**101.64**
Reinsurance accounts receivable	208.18	274.07	**332.73**
Reinsurance reserves receivable	591.67	697.62	**877.31**
Interest receivable	3,090.63	3,512.85	**4,811.62**
Dividends receivable	559.49	301.37	**314.65**
Other receivables	21,331.55	16,773.97	**21,072.30**
Financial assets purchased under resale agreements	27,306.75	5,844.25	**30,717.84**
Inventories	228,310.10	228,758.02	**231,570.07**
Non-current assets maturing within one year	681.26	142,302.86	**207,152.29**
Other current assets	69,910.52	63,872.24	**61,717.83**
Total current assets	1,092,236.05	1,252,880.61	**1,357,789.09**
Non-current assets			
Loans and advances issued	113,833.13	68,758.77	**70,887.60**
Available-for-sale financial assets	105,723.80	47,290.02	**60,467.86**
Held-to-maturity investments	109,347.69	82,602.47	**50,541.17**
Long-term accounts receivable	76,425.41	92,447.77	**91,486.28**
Long-term equity investments	93,055.99	107,612.58	**108,663.90**
Investment properties	1,522.27	2,258.24	**2,325.00**
Original value of fixed assets	1,656,345.50	1,725,184.01	**1,821,632.80**
Less: Accumulated depreciation	700,441.33	767,420.70	**826,793.82**
Net value of fixed assets	955,904.17	957,763.31	**994,838.98**
Less: Impairment of fixed assets	64,892.27	81,696.51	**100,434.13**

Consolidated Balance Sheet (continued)

million RMB yuan

	2015	2016	2017
Fixed assets-net value	891,011.90	876,066.80	**894,404.85**
Construction-in-progress	340,766.92	283,904.13	**241,456.52**
Project materials	7,865.15	8,141.70	**6,453.21**
Disposal of fixed assets	633.44	674.27	**710.08**
Productive biological assets	0.72	0.67	**0.23**
Oil and gas assets	957,299.20	958,466.58	**935,508.24**
Intangible assets	86,054.09	88,474.58	**89,218.53**
Development expenditure	1,480.82	1,299.82	**1,654.67**
Goodwill	46,258.07	46,699.93	**42,029.89**
Long-term deferred expenses	37,822.48	35,874.99	**34,646.65**
Deferred tax assets	24,618.22	29,078.09	**35,070.20**
Other non-current assets	48,142.44	87,227.22	**75,407.14**
Total non-current assets	2,941,861.74	2,816,878.63	**2,740,932.02**
Total Assets	4,034,097.79	4,069,759.24	**4,098,721.11**
Current liabilities			
Short-term loans	55,361.49	86,917.37	**114,062.05**
Borrowings from central bank	603.12	661.42	**418.45**
Deposits from customers and interbank	205,737.15	195,183.34	**188,029.86**
Borrowing funds	60,878.57	73,016.02	**78,762.86**
Derivative financial liabilities	793.64	561.18	**750.00**
Notes payable	18,544.14	23,067.58	**25,933.99**
Accounts payable	302,057.78	290,932.91	**337,960.05**
Receipts in advance	80,306.50	89,127.37	**98,645.24**
Funds from sales of financial assets with repurchase agreement	13,147.37	7,180.54	**21,559.98**
Handling charges and commissions payable	18.21	25.36	**13.22**
Staff remuneration payable	21,311.56	24,047.74	**25,391.84**
Taxes payable	48,134.39	56,976.06	**69,252.86**
Interest payable	12,416.15	13,921.36	**13,380.01**
Dividends payable	1,563.13	6,678.27	**1,975.21**
Other payables	88,431.51	64,374.87	**66,365.30**

Consolidated Balance Sheet (continued)

million RMB yuan

	2015	2016	2017
Reinsurance accounts payable	177.30	288.98	**430.86**
Reserve for insurance contracts	1,532.18	1,928.84	**2,483.54**
Funds arising from acting trading of securities	0.01	0.01	**0.01**
Non-current liabilities due within one year	148,144.36	84,869.42	**118,664.49**
Other current liabilities	5,110.85	6,932.95	**16,053.16**
Total current liabilities	1,064,269.41	1,026,691.59	**1,180,132.98**
Non-current liabilities			
Long-term loan	17,266.61	20,583.12	**18,542.25**
Bonds payable	378,765.86	393,853.21	**305,544.58**
Long-term payables	8,163.61	6,849.00	**4,125.43**
Long-term employee remuneration payable	123.36	1,489.51	**1,712.80**
Specific payables	1,314.39	1,271.46	**1,218.80**
Accrued liabilities	124,243.92	132,281.72	**139,505.72**
Deferred income	12,790.39	13,675.89	**15,597.93**
Deferred tax liabilities	23,621.25	25,998.21	**25,735.80**
Other non-current liabilities	5,250.34	2,169.49	**2,962.74**
Total non-current liabilities	571,539.73	598,171.61	**514,946.05**
Total liabilities	1,635,809.14	1,624,863.20	**1,695,079.03**
Owners' equity			
Paid-up capital (or share capital)	486,855.00	486,855.00	**486,855.00**
Other equity instruments	209,511.78	209,511.78	**186,075.98**
Capital reserve	275,212.89	289,747.45	**295,063.03**
Other comprehensive income	-44,117.41	-17,190.83	**-33,092.57**
Special reserve	30,961.72	32,365.52	**32,665.47**
Surplus reserve	1,105,198.51	1,085,777.17	**1,085,777.17**
General risk provisions	7,752.71	8,706.33	**10,534.12**
Undistributed profit	8,020.88	2,233.19	**-21,299.49**
Total owner's equity attributable to parent company	2,079,396.08	2,098,005.61	**2,042,578.71**
Minority interest	318,892.57	346,890.43	**361,063.37**
Total owners' equity	2,398,288.65	2,444,896.04	**2,403,642.08**
Total liabilities and owners' equity	4,034,097.79	4,069,759.24	**4,098,721.11**

Consolidated Profit Statement

million RMB yuan

	2015	2016	2017
Total revenue from operations	2,016,756.66	1,871,902.90	**2,340,316.13**
Including: Operating income	1,998,581.26	1,855,283.73	**2,319,349.96**
Interest income	16,263.99	14,272.62	**18,804.22**
Premiums earned	95.59	333.04	**277.40**
Handling charges and commission income	1,815.82	2,013.51	**1,884.55**
Total cost of operations	1,967,309.67	1,851,542.17	**2,294,970.86**
Including: Operating cost	1,505,437.21	1,418,917.78	**1,797,414.33**
Interest expenses	7,576.47	6,789.72	**7,604.12**
Handling charges and commission expenses	187.35	114.52	**153.74**
Net expenditure for compensation payments	119.04	193.99	**268.24**
Net amount of provision for insurance contract	200.51	240.71	**347.92**
Reinsurance costs	-89.04	-57.09	**-82.61**
Tax and surcharges	207,785.05	197,241.56	**210,271.11**
Selling expenses	73,581.19	74,407.67	**75,764.03**
Administrative expenses	107,646.79	102,538.88	**102,788.47**
Finance expenses	4,166.32	-10,479.22	**29,305.16**
Impairments loss of assets	40,875.23	42,512.47	**45,969.00**
Others	19,823.55	19,121.18	**25,167.35**
Add: Gains from change in fair value (Loss is represented by "-")	-15.94	1.47	**-18.16**
Gain from investment (Loss is represented by "-")	33,034.59	34,072.87	**12,914.02**
Exchange gain (Loss is represented by "-")	543.30	364.06	**323.60**
Other gains	-	-	**9,291.52**
Operating profit (Loss is represented by "-")	83,008.94	54,799.13	**67,856.25**
Add: Non-operating income	15,440.45	15,437.55	**8,219.31**
Less: Non-operating expenditure	15,980.55	19,505.39	**22,731.93**
Total profit (Total loss is represented by "-")	82,468.84	50,731.29	**53,343.63**
Less: Income tax expenses	26,226.96	23,937.41	**35,777.15**
Net profit (Net loss is represented by "-")	56,241.88	26,793.88	**17,566.48**
Net profit attributable to owners of the parent company	44,560.43	12,406.62	**-4,667.02**
Minority interest income	11,681.45	14,387.26	**22,233.50**
Profit and loss from continuing operations	-	26,793.88	**17,566.48**
Net amount of other comprehensive income after tax	-9,295.46	27,876.33	**-21,369.66**
Total comprehensive income	46,946.42	54,670.21	**-3,803.18**
Total comprehensive income attributable to owners of the parent company	34,080.68	39,247.16	**-20,568.76**
Total comprehensive income attributable to minority interests	12,865.74	15,423.05	**16,765.58**

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

(1) Foreign currency transaction

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 translations that occurred in construction preparation, production and operation are taken into financial expenses; those related to the acquisition and construction of fixed asset, oil and gas asset and other assets in line with the capitalization condition are handled according to relevant provisions about borrowing costs; and those occurred in the period of liquidation are taken into 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 was determined, with the difference thus caused taken into the current profits and losses 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 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 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.

6. Recognition of cash and cash equivalents

The cash presented in the Cash Flow Statement comprises cash in hand and the deposits available for payment from time to 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.

7. Financial instruments

Financial instruments include financial assets, financial liabilities and equity instrument.

(1) Categorization of financial instruments

Financial instruments, based on the purpose of obtaining a financial asset or assuming a financial liability, are categorized into: financial assets at fair value through profit or loss; loans and receivables; available-for-sale financial assets; held-to-maturity investments; and other financial liabilities etc.

(2) Recognition and measurement of financial instruments

a. Financial assets at fair value through profit or loss (financial liabilities)

Financial assets/liabilities are initially recognized at fair value (minus: cash dividends declared but unpaid or interests on bonds due but unpaid), with the transaction costs stated in profit and loss accounts.

Interests or cash dividends from the assets held are recognized as investment income. End-of-year change in fair value is recognized in profit or loss. When disposed, the difference between its fair value and initially recognized amount is recognized as gain/loss on investment, and its gain/ loss on changes in fair value is adjusted accordingly.

b. Receivables

Accounts receivable for goods supplied and/or services rendered as well as debts of other enterprises other than debt instruments quoted in active market, including accounts receivable, notes receivable and other receivables, are initially recognized at the contractual amount due from the buyer; a receivable for financing is initially recognized at its present value and measured at amortized cost using the effective interest method; when recovered or disposed, the difference between the price of obtaining such investment and the book value of receivable shall be determined as the income statement.

c. Available-for-sale financial assets

Available-for-sale financial assets are initially recognized at fair value (minus: cash dividends declared but unpaid or interests on bonds due but unpaid) plus the transaction costs. Interests or cash dividends from the assets held are recognized as investment income. End-of-period fair value is measured and the change in fair value is recognized in other comprehensive income. When disposed, the difference between the acquisition cost and the carrying value is recorded as investment income; meanwhile, the accumulative amount of the changes in fair value originally recorded in owner's equity and corresponding to the disposition is recorded into losses from investment.

d. Held-to-maturity investments

Held-to-maturity investments are initially recognized at fair value (minus: interests on bonds due but unpaid) plus the transaction costs. Interests from the assets held are measured at amortized cost using the effective interest method and recorded as investment income. The effective interest rate is determined upon acquisition and remains unchanged in the expected life thereof or a shorter period of time, if applicable. When disposed, the difference between the acquisition cost and the carrying value is recorded into profits from investment.

e. Other financial liabilities

Other financial liabilities are initially recognized at fair value plus the transaction costs and measured at amortized cost. The Company's other financial liabilities include accounts payable, borrowings and notes payable etc.

(3) Recognition and measurement of financial assets transfer

Upon the transfer of a financial asset, if all or a substantial part of the risks and rewards incidental to ownership of the asset are transferred to the transferee, the asset should be derecognized; if all or a substantial part of the risks and rewards incidental to ownership of the asset are retained, the asset should not be derecognized.

To decide whether the transfer of a financial asset will lead to the derecognition of such asset, the "substance over form" principle shall apply. There are two types of asset transfer, i.e. full and partial. When a full asset transfer is eligible for the derecognition of such asset, the difference between the two items listed below should be recorded into profits or losses of the current period:

a. The carrying value of the financial asset being transferred;

b. The consideration received for the transfer, plus the accumulative amount of the changes in fair value originally recorded in owner's equity (when the financial asset being transferred falls under the category of available-for-sale financial asset).

(4) Derecognization of financial liabilities

A financial liability should be derecognized in whole or in part when the present obligation is fully or partially discharged; if the Company signs an arrangement with its creditor on replacing an existing financial liability with a new financial liability on the terms and conditions that are substantially different from those of the existing financial liability, the existing financial liability should be derecognized and, at the same time, the new financial liability should be recognized. For an existing financial liability with substantial changes in all or part of its terms and conditions, the existing financial liability should be derecognized in whole or in part and such financial liability should be recognized as a new financial liability on the revised terms and conditions. When a financial liability is derecognized in whole or in part, the difference between the carrying value of financial liability derecognized and the consideration paid (including a non-cash asset being transferred or a new financial liability being assumed) should be recorded into profits or losses of the current period. For a partial repurchase of a financial liability, the carrying value of the financial liability as a whole should be allocated between the derecognized part and the retained part at their relative fair values on the date of such repurchase. The difference between the carrying value of the financial liability derecognized and the consideration paid (including a noncash asset being transferred or a new financial liability being assumed) should be recorded in profits or losses of the current period.

(5) Offsetting between financial assets and financial liabilities

When both parties to a transaction have a legally enforceable right to set off the financial asset and financial liability and intend to settle the financial asset and financial liability on a net basis or simultaneously, the net amount after offsetting should be presented in the balance sheet.

(6) Difference between financial liabilities and equity instruments as well as related treatment

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. A financial liability is any liability that is a contractual obligation to deliver cash or other financial assets to another entity.

Interest, dividends, gains, and losses relating to a financial instrument classified as a financial liability, as well as gains or losses arising from redemption or refinancing, should be included in the current profit and loss.

The issuance, repurchase, sale and cancellation of a financial instrument classified as an equity instrument should be treated as a change in equity instead of being recognized as a change in the fair value of such equity instrument. Distributions to equity holders should be classified as profit distribution.

(7) Impairment of financial assets and write-off principles

An assessment of carrying value of financial assets, except for financial assets at fair value through profit or loss, is made at the balance sheet date to determine whether there is objective evidence of impairment.

i. Impairment of available-for-sale financial assets

An impairment occurs when there is a substantial decrease in the fair value of an available-for-sale financial asset at the end of the period or the downward trend is expected to continue, after taking into account all the relevant factors. In this case, the cumulative loss on the decrease of fair value that was previously recorded in owner's equity should be recognized as impairment loss.

With respect to an available-for-sale debt instrument with recognized impairment loss, if the fair value has increased in a subsequent period and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized loss on impairment should be reversed and recognized in the current profit and loss.

For available-for-sale equity instruments, impairment loss should not be reversed through profit and loss.

ii. Impairment of held-to-maturity investments

Impairment loss on held-to-maturity investments should be measured in the same way as impairment loss on account receivables.

When there is no reasonable expectation of recovering a financial asset, the provision for impairment should be written off and the book value of the financial asset should be written down accordingly. The Company will write off the financial asset, either in whole or in part as it may deem fit.

iii. Impairment of account receivables

A. Reserve for bad debts

The allowance method is used to calculate bad debts and the provision for bad debts is made at the end of every accounting period and included in the current profit and loss. In the event of conclusive evidence of an account receivable being uncollectible, a loss for the debt in question will be determined and the amount of bad debt written off to the profit and loss account.

B. Recognition standard of bad debts

a. The debtor is declared legally bankrupt or dissolved, with remaining property unable to pay up the account receivable;

b. The debtor is dead or declared legally missing or deceased, with property or heritage unable to pay up the account receivable;

c. In the event of receivables involved in the litigation, there is a court judgment/ruling against the Company, or although such judgment/ruling is in the Company's favor, the execution, as being unenforceable, is suspended and resumption is unlikely;

d. The debtor suffers from huge losses due to the major natural disasters or accidents, with property (including insurance indemnity) unable to pay up the account receivable.

(8) Entrusted loans

a. Valuation of entrusted loans and recognition of interests

Entrusted loans are accounted for at the actual amount being entrusted. The accrued interest receivable at the end of the reporting period is recorded as investment income. For accrued interest that is due and irrecoverable, the accrual of interest should be stopped and withdrawn.

b. Recognition of and provision for impairment of entrusted loans

A comprehensive review of entrusted loans is conducted at the end of the year. If the result indicates the impairment of entrusted loans, the carrying value of such entrusted loans is written down to its present value of estimated future cash flows, with the amount of impairment recognized in profits or losses of the current period.

8. Inventories

(1) Categories of inventory

Raw materials, work in progress and semi-finished goods, finished goods, goods sold etc.

(2) Acquisition and sales valuation for inventory

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 inventory 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 expected selling price less 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 investment

(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 profits & losses 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. In addition to the cash dividends or profits declared but not yet paid as included in the price or consideration actually paid upon acquisition, the cash dividends or profits that the investee has declared to distribute and the Company's is entitled to be recognized in investment income.

b. Long-term equity investments under equity method

Long-term equity investments in associates and joint ventures are accounted for using the equity method. For the positive difference between the initial cost of investment and the investor's share of the fair values of the investee's net identifiable assets on acquisition of the investment, no adjustment to the initial cost of such long-term equity investment is made; for the negative difference between the initial cost of investment and the investor's share of the fair values of the investee's net identifiable assets on acquisition of the investment, such difference is recorded into profits or losses of the current period.

The investor's share of the net profit/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.

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 profits or losses of 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 profits or losses of the current period in proportion.

(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) Depreciation test and provisions for depreciation

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

For non-marketable long-term equity investment, depreciation 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. Government subsidies

(1) Types of government subsidies

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

(2) Acknowledgment of government subsidies

The Company has acknowledged government subsidies that it is eligible for and granted.

Asset-related governmental subsidies are recognized as deferred income which is taken into gains/losses of the current period appropriately and systematically during the lifespan of related asset, i.e., recognized as other gains if related to the company's daily activities; otherwise, recognized as non-operating income.

Income-related governmental subsidies used to recover relevant costs, expenses or losses in the subsequent period are recognized upon receiving as deferred income which is taken into gains/losses of the current period during the verification of related costs, expenses or losses, i.e., recognized as other gains if related to the company's daily activities; 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 Group are directly recognized as the gains/losses of the current period, i.e., recognized as other gains if related to the company's daily activities; otherwise, recognized as non-operating income, or used to write down relevant costs, expenses or losses.

(3) Measurement of government subsidies

Government subsidies in the form of monetary assets are measured at the amounts received or receivable.

Government subsidies in the form of non-monetary assets are measured at fair value, and in the case of inability to determine fair value reliably, measured at the nominal amount, which is RMB 1.

11. 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 asset 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.

B. Main Taxes

1. Corporate income tax

The rate of corporate income tax applicable to the Company is 15% or 25%. In accordance with the *Directive on Tax Policy Issues in Relation to the Further Implementation of the Western China Development Strategy* (CS[2011]-58) announced by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation, business establishments in the industries encouraged to develop in the western region are entitled to a reduced corporate income tax rate of 15%. 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.

2. Value added tax

The value added tax rate is 17% for petroleum and petrochemical products and 11% for natural gas and LNG. The tax rate for tangible movable property leasing is 17%; the tax rate for transportation services and real estate sales is 11%. In accordance with the *Notice Regarding Changes to Value Added Tax Rates* (CS[2018]-32) made by the Ministry of Finance and State Administration of Taxation, for taxable sales or imports to which the rates of 17% and 11% were respectively applicable, new rates of 16% and 10% will become effective since May 1, 2018.

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 excise tax. The rate of education surcharge is 3% of the amounts actually paid for value added tax and excise tax.

4. Excise tax

The per unit excise tax is RMB 1.52 per liter for gasoline, naphtha, solvent oils and lubricants, and RMB 1.20 per liter for diesel and fuel oils. A suspension of excise tax remains unchanged for jet kerosene. In accordance with the *Directive on Excise Tax Exemption for Oil Consumption in the Production of Oil Products* announced by the Ministry of Finance and the State Administration of Taxation, the Company has been exempt from excise tax since January 1, 2009 on self-provided refined oils used as fuel, power and raw materials to produce oil products.

5. Resources tax

The resources tax rate is 6%, based on crude oil and natural gas sales.

6. Special oil gain levy

The special oil gain levy is based on excess sales revenue from domestic crude oil prices exceeding the threshold of USD 65 per barrel and imposed at the five-level progressive ad valorem rates between 20% and 40%.

7. Personal income tax

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