

Financial Statements

Consolidated Balance Sheet

million RMB yuan

	2017	2018
Current assets		
Cash and cash equivalent	402,825.97	412,637.17
Funds lent	20,625.50	29,298.75
Financial assets at fair value through profit or loss	17,995.07	54,908.94
Derivative financial assets	453.01	232.16
Notes and accounts receivable	136,607.81	124,881.88
Prepayments	220,613.45	202,177.11
Premium receivable	101.64	117.35
Reinsurance accounts receivable	332.73	626.58
Reinsurance reserves receivable	877.31	1,332.93
Other receivables	26,198.57	30,112.44
Financial assets purchased under resale agreements	30,717.84	30,669.47
Inventories	231,570.07	249,224.40
Non-current assets maturing within one year	207,152.29	183,889.10
Other current assets	61,717.83	71,255.17
Total current assets	1,357,789.09	1,391,363.45
Non-current assets		
Loans and advances issued	70,887.60	63,423.85
Debt investments	-	1,160.60
Available-for-sale financial assets	60,467.86	73,087.74
Held-to-maturity investments	50,541.17	48,768.81
Long-term accounts receivable	91,486.28	98,189.57
Long-term equity investments	108,663.90	116,130.71
Other investments in equity instruments	-	759.53
Investment properties	2,325.00	2,573.44
Fixed assets	895,114.93	891,506.56
Construction-in-progress	247,909.73	252,692.12
Productive biological assets	0.23	0.19
Oil and gas assets	935,508.24	930,672.37

Consolidated Balance Sheet (continued)

million RMB yuan

	2017	2018
Intangible assets	89,218.53	93,610.71
Development expenditure	1,654.67	1,274.99
Goodwill	42,029.89	42,363.05
Long-term deferred expenses	34,646.65	37,503.24
Deferred tax assets	35,070.20	32,653.68
Other non-current assets	75,407.14	54,729.24
Total non-current assets	2,740,932.02	2,741,100.40
Total assets	4,098,721.11	4,132,463.85
Current liabilities		
Short-term loans	114,062.05	80,635.96
Borrowings from central bank	418.45	1,817.10
Deposits from customers and interbank	188,029.86	198,715.07
Borrowing funds	78,762.86	71,964.35
Derivative financial liabilities	750.00	362.53
Notes and accounts payable	363,894.04	389,558.49
Receipts in advance	98,645.24	36,584.48
Contractual liabilities	-	67,605.49
Funds from sales of financial assets with repurchase agreement	21,559.98	27,849.54
Handling charges and commissions payable	13.22	30.25
Staff remuneration payable	25,391.84	33,896.29
Taxes payable	69,252.86	94,303.92
Other payables	81,720.52	72,928.01
Reinsurance accounts payable	430.86	721.78
Reserve for insurance contracts	2,483.54	3,355.05
Funds arising from acting trading of securities	0.01	0.01
Non-current liabilities due within one year	118,664.49	154,503.34
Other current liabilities	16,053.16	23,501.38
Total current liabilities	1,180,132.98	1,258,333.04

Consolidated Balance Sheet (continued)

million RMB yuan

	2017	2018
Non-current liabilities		
Long-term loan	18,542.25	21,264.60
Bonds payable	305,544.58	242,350.73
Long-term payables	5,344.23	9,359.01
Long-term employee remuneration payable	1,712.80	1,676.97
Accrued liabilities	139,505.72	158,536.50
Deferred income	15,597.93	16,982.99
Deferred tax liabilities	25,735.80	31,189.97
Other non-current liabilities	2,962.74	2,620.92
Total non-current liabilities	514,946.05	483,981.69
Total liabilities	1,695,079.03	1,742,314.73
Owners' equity		
Paid-up capital (or share capital)	486,855.00	486,855.00
Other equity instruments	186,075.98	150,468.79
Capital reserve	295,063.03	282,572.87
Other comprehensive income	-33,092.57	-26,340.99
Special reserve	32,665.47	33,366.68
Surplus reserve	1,085,777.17	1,084,354.66
General risk provisions	10,534.12	10,946.07
Undistributed profit	-21,299.49	-22,940.87
Total owner's equity attributable to parent company	2,042,578.71	1,999,282.21
Minority interest	361,063.37	390,866.91
Total owners' equity	2,403,642.08	2,390,149.12
Total liabilities and owners' equity	4,098,721.11	4,132,463.85

Consolidated Profit Statement

million RMB yuan

	2017	2018
Total revenue from operations	2,340,299.33	2,739,011.50
Including: Operating income	2,319,333.16	2,713,819.61
Interest income	18,804.22	22,973.57
Premiums earned	277.40	329.92
Handling charges and commission income	1,884.55	1,888.40

Consolidated Profit Statement (continued)

million RMB yuan

	2017	2018
Total cost of operations	2,294,970.86	2,610,837.75
Including: Operating cost	1,797,414.33	2,092,669.12
Interest expenses	7,604.12	9,509.95
Handling charges and commission expenses	153.74	188.46
Net expenditure for compensation payments	268.24	300.80
Net amount of provision for insurance contract	347.92	309.75
Reinsurance costs	-82.61	-67.05
Tax and surcharges	210,271.11	231,975.85
Selling expenses	75,764.03	78,649.64
Administrative expenses	89,549.82	97,589.36
R&D expenses	13,238.65	15,968.93
Finance expenses	29,305.16	-1,001.12
Impairments loss of assets	45,969.00	65,890.33
Credit impairment loss	-	-554.24
Others	25,167.35	19,407.97
Add: Other gains	9,314.79	12,800.72
Gain from investment (Loss is represented by "-")	12,914.02	14,141.84
Exchange gain (Loss is represented by "-")	323.60	210.58
Gains from change in fair value (Loss is represented by "-")	-18.16	250.53
Gain on disposal of assets (Loss is represented by "-")	-1,643.38	1,384.13
Operating profit (Loss is represented by "-")	66,219.34	156,961.55
Add: Non-operating income	6,655.01	11,743.52
Less: Non-operating expenditure	19,530.72	58,145.58
Total profit (Total loss is represented by "-")	53,343.63	110,559.49
Less: Income tax expenses	35,777.15	67,757.04
Net profit (Net loss is represented by "-")	17,566.48	42,802.45
Net profit attributable to owners of the parent company	-4,667.02	15,018.84
Minority interest income	22,233.50	27,783.61
Net income from continuing operation	17,566.48	42,802.45
Net amount of other comprehensive income after tax	-21,369.66	9,789.67
Total comprehensive income	-3,803.18	52,592.12
Total comprehensive income attributable to owners of the parent company	-20,568.76	21,770.42
Total comprehensive income attributable to minority interests	16,765.58	30,821.70

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 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.

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 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 on 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 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 business due to the change in exchange rate is also separately listed in the owner's equity when preparing consolidated financial statements. When disposing foreign business, the related exchange difference is carried, in proportion, into the profits or losses of the current period during which the business 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.

7-1. Financial instruments (old standards)

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

7-2. Financial instruments (new standards)

Financial instruments include monetary capital, non-long term equity investments, receivables, payables, borrowings, notes payables and share capital, etc.

(1) Categorization 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 profits or losses of the current period.

(2) Categorization of financial liabilities

Financial liabilities are classified into: Financial liabilities measured at fair value with changes in fair value recognized in profits or losses of 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) 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 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 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.

The investor's share of the net profits or losses of the investee is based on the fair values 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 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.

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 profits or losses of 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 profits or losses, other comprehensive income and profit distribution are transferred to profits or losses of 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 profits or losses of 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) 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.

10-1. 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 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.

(3) Accounting treatment of government subsidies

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.

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; 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; otherwise, recognized as non-operating income, or used to write down relevant costs, expenses or losses.

(4) 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.

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 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.

13. Changes in accounting policies

The Ministry of Finance issued in 2017 the amended *Accounting Standards for Business Enterprises (ASBE) No. 14 – Revenue* (“New Revenue Standards”), *Accounting Standards for Business Enterprises (ASBE) No. 22 – Financial Instruments: Recognition and Measurement*, *Accounting Standards for Business Enterprises (ASBE) No. 23 – Transfer of Financial Assets*, *Accounting Standards for Business Enterprises (ASBE) No. 24 – Hedge Accounting*, *Accounting Standards for Business Enterprises (ASBE) No. 37 – Financial Instruments: Presentation* (“New Financial Instruments Standards”) and *Accounting Standards for Business Enterprises – Interpretations No.9 – No.12*.

In addition, the Ministry of Finance announced in June and September 2018 the issuance of *Directive on Model Financial Statements for Business Enterprises 2018* (CK [2018] No.15) and *Interpretation of Model Financial Statements for Business Enterprises 2018* (collectively referred to as “New Model Financial Statements”).

- (1) Implementation of new standards on revenue

The new revenue standards superseded the *Accounting Standards for Business Enterprises (ASBE) No. 14 – Revenue* and the *Accounting Standards for Business Enterprises (ASBE) No. 15 – Construction Contracts* issued by the Ministry of Finance in 2006 (“Old Revenue Standards”).

PetroChina has adopted new revenue standards since January 1, 2018, without significant impact on CNPC’s accounting policies.

- (2) Implementation of new standards on financial instruments

The new financial instruments standards made revisions to the *Accounting Standards for Business Enterprises (ASBE) No. 22 – Financial Instruments: Recognition and Measurement*, *Accounting Standards for Business Enterprises (ASBE) No. 23 – Transfer of Financial Assets*, and *Accounting Standards for Business Enterprises (ASBE) No. 24 – Hedging* issued by the Ministry of Finance in 2006 and the *Accounting Standards for Business Enterprises (ASBE) No. 37 – Financial Instruments: Presentation* amended in 2014 (“Old Financial Instruments Standards”).

PetroChina has adopted new financial instruments standards since January 1, 2018. Under the new standards, financial assets are classified by form of management and cash flow characteristics, using an “expected credit loss” model instead of the “incurred loss model” in the original financial instruments standards.

Adoption of the new financial instruments standards at PetroChina has no significant impact on CNPC’s accounting policies. Meanwhile, CNPC has made no adjustment to comparative data.

- (3) Implementation of new model financial statements

CNPC has prepared the consolidated statement of income and consolidated balance sheet for 2018 in accordance with the new model financial statements and made a retrospective restatement of items in these financial statements.

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] No.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% 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.

2. Value added tax

In accordance with the *Directive on the Relevant Policies on the Streamlining and Combination of Value-added Tax Rates* (CS [2017] No.37) announced by the Ministry of Finance and the State Administration of Taxation, value-added tax rates have been revised to 17%, 11% and 6%, with a 13% rate revoked, effective since July 1, 2017; the VAT rate on natural gas has been reduced from 13% to 11%; in accordance with the *Directive on Modifications to Value-added Tax Rates* (CS [2018] No.32) announced by the Ministry of Finance and the State Administration of Taxation, the new rates of 16% and 10%, instead of 17% and 11%, are applicable to taxable sales and imports respectively, effective since May 1, 2018; for leasing of tangible movable properties, a 16% rate is applicable; the tax rate for transportation services, postal services, construction services, leasing of real estate and sale of real estate is 10%; for modern services (except for leasing of tangible movable properties), the VAT rate is 6%; taxable services specified by the Ministry of Finance and the State Administration of Taxation are zero-rated.

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 Increases in Fuel Excise Tax* (CS [2015] No.11) announced by the Ministry of Finance and the State Administration of Taxation, the per unit excise rate 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 and fuel

oils, effective since January 13, 2015. In accordance with the *Directive on Excise Tax Exemption for Oil Consumption in the Production of Oil Products* (CS [2010] No.98) 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%. 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 Administration of Taxation, the rate of mineral resources compensation fee has been reduced to zero and the rate of resources tax 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 oil fields and eligible for a resources tax reduction of 40% for heavy oil, high pour point oil and high sulfur natural gas, 30% for EOR operations, 20% for low abundance oil and gas fields (on a temporary basis) and 30% for deep-water oil and gas operations. In addition, 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 Administration of Taxation, resources tax on shale gas will be cut by 30 percent (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

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.