

2015 Annual Report

China Petroleum Finance Company Limited

China Petroleum Finance Company Limited 2015 Annual Report



1995-2015

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1.About CPF

Company Profile



Jointly owned by China National Petroleum Corporation (hereinafter referred to as “CNPC”) and PetroChina Company Limited (hereinafter referred to as “PetroChina”), China Petroleum Finance Company Limited (hereinafter referred to as “CPF”) is a non-banking financial institution established with the approval of People’s Bank of China and registered in the State Administration for Industry and Commerce in order to meet CNPC’s financial strategies and treasury management needs. CPF is represented as National Inter-bank Bond Markets, China Foreign Exchange Trading Center and licensed by China Securities Regulatory Commission as an IPO issued price inquiring agency.

Since its establishment on December 1995, CPF has been serving as CNPC’s platform for settlement, fundraising/financing and treasury management for 20 years under the doctrine of “Service, Inspiration and Excellence” . CPF has been successful in reducing fundraising/financing costs and improving capital efficiency and effectiveness to provide financial support for China’s oil industry. Working with CNPC and its member companies, CPF has maintained a healthy and steady growth in settlement amount, assets, revenue and earnings for many years in a row, making it one of China’s leading financial organizations in terms of assets size, business portfolio and profitability.

At the end of 2015, the Company has had two shareholders and a registered capital worth RMB 5,441 million. With the Board of Shareholders acting as an ultimate decision-making body, the Board of Directors appoints a General Manager to run the overall companies operations. The Company’s operations are carried out through ten various departments, i.e. Finance, Business Operation, Credit, Securities, International Operation, Internal Audit, Information Technology, Human Resources, Financing and Accounting Research Institute and the General Manager’s office. The Company has branch offices in Daqing, Shenyang, Jilin and Xi’an altogether with 65 business divisions where CNPC member companies are located. Currently, CPF has an extensive service network to provide financial products and services for over 400 member companies with businesses covering from oil and gas exploration & development, refining & chemicals, pipeline transportation, to the marketing of refined products, and oilfield services & petroleum engineering. As part of CNPC’s “looking abroad” strategy, CNPC Finance (HK) Ltd. and CPF (Dubai) Ltd. were incorporated in Hong Kong and Dubai in March 2008 and February 2009 respectively. In addition, CNPC Treasury (Singapore) PTE Ltd. was set up in Singapore in May 2011 to provide cross-border financial services for the CNPC’s overseas member companies.

CPF is focusing on these financial services in both renminbi as well as foreign currencies:

Financial and financing advisory services, credit assurance related advisory services, and intermediary services to the member companies; assisting the member companies with collection and payment needs; approved insurance intermediary services; guaranteed services to the member companies; entrusted loans and investments between the member companies; acceptance and discounting of bills for the member companies; account transfer and settlement among the member companies and related settlement and clearing solutions; taking deposits from the member companies; lending and financial leasing to the member companies; inter-financial institution funding; issuance of approved finance of company debts; underwriting corporate bonds of the member companies; equity investments in financial institutions; investments in securities; consumer lending, buyer credit and financial leasing services for the member companies.

As approved by China Banking Regulatory Commission and State Administration of Foreign Exchange, CPF is responsible for managing CNPC’s onshore and offshore funds centrally and handling foreign exchange transactions and domestic derivatives for CNPC member companies.

Message from the Chairman



CHAIRMAN:
Liu Yuezhen

CPF faced unprecedented challenges in year 2015 resulting from different factors including:

- The complexities in the economy of China as well as the world economy,
- The outlook for uncertain economic growth,
- The over-the-cliff drop in oil prices,
- The volatility in the global financial market and,
- The twists and turns in the domestic currency and interest rate reforms.

During the 12th Five-Year Period, CPF was able to grow significantly with its key performance indicators steadily on the rise. As at the end of 2015, the company's total assets stood at RMB 640,100 million, up by 94.9% from the end of 2010; equity interests reached RMB 43,570 million, up by 97% from the end of 2010. CPF's cumulative revenues over the past five years were RMB 76,940 million, i.e. RMB 15.4 billion per year on average; cumulative profits were RMB 30,650 million, i.e. RMB 6.13 billion per year on average, up 111.3% and 104.1% respectively from the 11th Five-Year Period. The company maintained its industry-leading performance in total assets, revenues and profits for thirteen consecutive years, with all the regulatory indicators continuing to improve.

Service excellence: Serving as the In-house Bank, Capital Pool and Treasury Platform" of CNPC, CPF maintained a focus on key activities, i.e. cash sweep, settlement, lending and fundraising, and liquidity management. The company's focus was to support CNPC's capital needs, ensure safe and efficient capital operation and settlement, and reduce financial expenses and costs. The company helped member companies save RMB 3 billion in the year 2015 by lowering interest rates, waiving fees and reducing exchange costs, bringing the cumulative savings in the 12th Five-Year Period to RMB 17 billion.

While making headway with the Master Treasury System, the company was able to expand coverage and increase efficiency for its settlement services, settling RMB 18.4 trillion worth of transactions and generating capital turnover of RMB 11.5 billion in 2015. In support of CNPC's restructuring and transformation efforts, CPF took effective steps to expand lending and satisfy the demand for capital, with the year-end loans outstanding up to RMB 257.9 billion. Meanwhile, the company acted as a funding platform in securities repurchase, credit granting and commercial paper funding activities in the domestic and offshore markets to raise as much as RMB 2.1 trillion in 2015, with an amount outstanding of RMB 129.6 billion per day on average, which helped ease the liquidity pressure for CNPC. The company also managed to provide several reliable, low-cost and ongoing sources of capital



Assets at the end of 2015



Revenues during the 12th five-year period



Profits during the 12th five-year period

for the member companies by participating in the money market and minimizing the impact of interest rate volatility.

Profitability: CPF emphasized both service excellence and bottom-line performance, highlighting a market-driven, refined approach to reduce costs and boost efficiency. The company's efforts to optimize its portfolio of assets and seize market opportunities created an increase in revenues up to RMB 3.09 billion, including RMB 633 million from our investment in bonds and stocks and RMB 560 million from swing trading in equity funds and convertible bonds. In the offshore market, CPF made RMB 700 million in risk-free profits by improving its bargaining position in front of banks. In addition to this, the company also traded in derivatives such as currency swaps and interest rate swaps. Taking a "tight balance" approach to liquidity management, the company further improved capital planning, cost control and position sizing, giving rise to around RMB 200 million increase in revenues.

Business innovation: CPF maintained a strong commitment to innovation-driven growth and continued to sharpen competitiveness by introducing innovative financial products and services. As the settlement platform of CNPC's Master Treasury System, the company continued to improve the functionality of the centralized treasury management system to bolster overall efficiency and performance. In 2015, CPF was again selected by Financial News and Chinese Academy of Social Sciences as a winner of the Most Innovative Financial Company of the Year Award. In view of CNPC's financial needs, the company continued to explore new lines of business and also leverage policy incentives. In 2015, the company obtained the licenses and permits for trading in domestic derivatives, bond underwriting and cross-border cash pooling etc. The company also made progress in policy research and sectoral communication. The company's proposal for lowering the ratio of reserves was approved by PBOC. As a result, the reserves requirement was lowered to the record low of 7% for the company, bolstering effectively the company's efforts in cost reduction, revenue generation and liquidity management.

Corporate governance and risk management: With a strong commitment to regulatory compliance, CPF continued to improve its internal control framework and procedures. Meanwhile, the company elected its new board of directors and board of supervisors. The risk tolerance limits were strictly observed and a risk management framework

covering all lines of business, procedures, functions and life cycle was implemented, together with the supervision or monitoring measures, to underpin the company's risk warning, risk prevention and risk mitigation efforts.

The year 2016, as the beginning year of the 13th Five-Year Period, will be critical to CNPC's reform and transformation. Against the backdrop of a substantial economic slowdown and a structural reform and under the impact of weak oil prices, CNPC's de-leveraging and destocking need a continued slide in profits. In addition to this the company needs narrowed yet volatile rate spreads as a result of the currency / interest rate reform. CPF is presently facing an increasingly complicated and challenging environment, where the growth fueled by the expansion of traditional business cannot be sustained. The profound change in the internal and external environments is presenting new requirements and challenges to the company's ability to conduct business, manage risks and generate profits.

The company now stands at a new historic starting point and is facing new challenges that are the "new normal". In this scenario, the company needs serious thinking and in-depth research from an innovative and pragmatic perspective. Staying aligned with CNPC's goal to an integrated international energy conglomerate and sticking to a prudent approach to business growth, CPF will maintain a focus on supporting CNPC's core operations. In addition to this, the company will also concentrate on strengthening its competences as a financial services provider, highlighting innovation, value creation and risk control. The company will play an active role in supporting CNPC's efforts to cope with low oil prices, overcapacity and structural change and upgrading. Meanwhile, it will strive to improve the quality and efficiency of growth, promote innovation and ensure sustainable development, laying a solid foundation for creating a leading financial company. We believe CPF, at the forefront of CNPC's cost reduction and revenue generation efforts, will make further progress towards the goal of building CNPC into an integrated international energy conglomerate.

CHAIRMAN: Liu Yuezhen

General Manager's Report



General Manager:
Lan Yunsheng

In year 2015, under the strong leadership of CNPC and the Board of Directors and in accordance with the regulatory requirements and in the guidance of Board of Directors', CPF saw a continuous improvement in quality of services and business management, with CNPC's strategical objective of building an integrated international energy conglomerate at the core of market. The company successfully achieved its business targets and objectives by lowering costs and boosting operational efficiency to actively respond to the complex internal and external sensitive situations, despite a cash crunch and CNPC's policies of reducing interest-bearing debt expenditure.

I. Steady improvement in operating results

At the end of December, the Company's total assets stood at RMB 640,100 million. In particular, the proprietary assets were RMB 390,900 million, increased by RMB 10,700 million or 2.8%; Assets under management stood at RMB 249,100 million, i.e. RMB 111,0 million or 4.3% decrease from that at the beginning of the year.

On a year-on-year basis, the Company's full-year revenues reached RMB 16,793 million, increased by 4.11%; reaching a pre-provisional operating profit of RMB 9,610 million, a 7.2% year on year increase. The total profit was RMB6,850 million, increased by 3% compared to last year.

While coping with the profit-draining situations and achieving its business objectives, CPF maintained a focus on supporting the core oil and gas operations and assisting member companies to reduce costs and boost efficiency in the year 2015. The company helped member companies save RMB 3 billion by lowering interest rates, waiving fees and reducing exchange costs, which accounted for 43.8% of the company's nominal profits. Tax savings achieved through company's overseas branches were US\$ 126 million (RMB 820 million). In addition, the company was able to save RMB 11.5 billion for CNPC through its settlement and cash sweep platform. CPF maintained its industry-leading performance with increase in profits, assets size, income and earnings for thirteen consecutive years, with its year-end loan loss reserve adequacy ratio and non-performing loan ratio much better and above the regulatory standards.

II. New developments in all lines of business

1. Expanded coverage and increased efficiency of settlement services: The Phases I and II of the Master Treasury System went smoothly, signing 1098 interlinked bank accounts and 849 cap accounts in total by the end of 2015, enabling highly accessible and efficient settlement services. Customer profiling for 1774 existing customers and 749 prospects was completed, providing a solid foundation for our marketing initiatives. As at the end of December 2015, CPF was managing a total of 2430 settlement accounts.

2. A significant expansion of lending: CPF continued to explore the market and extend loans. A range of measures were taken to increase efficiency, optimize loan structure, improve the return on assets, strengthen risk management and create a more sophisticated electronic bill system. The company's full-year operating profits were RMB 3.2 billion.

3. Solid returns on securities investment: CPF's prudent investment in bonds and stocks generated RMB 633 million in return; swing trading in equity funds and convertible bonds delivered RMB 560 million in profits. Meanwhile, the company obtained the licenses and permits for bond underwriting, i.e. distributing bonds issued by NCPCC and PetroChina. The company's full-year ROI ratio reached 6.88%, neutralizing effectively the negative impact of declining scale. In 2015, CPF was ranked among the Top 200 in the interbank local currency market.

4. Strong bottom-line results in overseas operations: Despite a significant drop in the offshore demand for credit, CPF was able to widen the lending margin by 24bps through maturity matching; a series of steps were taken to manage interest-bearing debt, reduce costs, facilitate bank bargaining, cut the size of commercial paper issues, lower the proportion of committed credit line, optimize position management, establish the limit for European commercial paper funding and broaden access to low-cost sources of funding; offshore operations generated US\$ 81.65 million in profits, offsetting effectively the decline in the domestic market; the company as CNPC's foreign exchange platform saw US\$ 53.56 billion in currency trading, reducing the conversion costs by US\$ 85 million. In addition, the company created the cross-border renminbi and foreign currency cash pools to bolster its cross-border business capabilities. A range of measures targeting cost reduction, efficiency improvement and structural adjustment resulted in US\$ 107 million in profits.

5. Increased repos for capital flow: CPF repurchased securities worth RMB 2.1 trillion throughout the year and created RMB 170 million of marginal contribution, including raising RMB 1.8 trillion through repos to save RMB 121 million in interest payment and lending RMB 281 billion under reverse repo agreements, with an average daily amount outstanding of RMB 1.79 billion, to generate RMB 52 million in profits (net of opportunity cost). The full-year short-term capital gains reached RMB 480 million.

6. New advances in branch offices and subsidiaries: Facing up to the challenges amidst an overall drop in production, sales and revenues across the member companies, CPF's branch offices settled 2.63 million transactions amounting to RMB 4.3 trillion, accounting for 50.9% of the company's total number of settlement transactions or 26.2% of the company's total amount of settlement. The full-year average balance of deposits stood at RMB 7.5 billion, with RMB 98.85 million in operation profit. CPF HK saw a continuous improvement in its service competences, reporting US\$ 28.34 billion in the total end-of-year assets and US\$ 453 million in profits.

III. A increasingly important role in business support

1. Stepped up efforts in risk management: The review and approval procedures were streamlined to enable the separation between approval and extension of credit. Pre-approval measures were introduced to prevent regulatory compliance-related risks. CPF launched 76 newly developed and amended guidelines and procedures in 2015. The company reviewed 1080 documents, issued 344

legal opinions and recommendations, gave 2 risk alerts and vetoed 3 data modifications. In addition to this, the risk management framework and practices were also greatly improved.

2. New progress in IT infrastructure: CPF strived to improve the functionality of its information system. The e-commerce system was upgraded successfully to support the company's information needs in settlement, credit and currency operations. The overall plan for data warehouse was taking shape, enabling automatic generation of Form 1104. A management cockpit was designed to improve the statistical analysis and decision support roles. The treasury system was optimized to offer greater safety.

3. An active role in business support: The quality of accounting, reporting and financial analysis was further improved; the research work in policy and market was conducted in a more proactive and productive way; a breakthrough was achieved in influencing PBOC's decision of lowering the ratio of reserves for finance companies; corporate decisions, initiatives and tasks were implemented effectively; document management and information security management were stepped up; the company's business support competences were brought to the next level.

The achievements of CPF in 2015 would not have been possible without the great support from CNPC, PetroChina and the member companies as well as the hard work of every employee.

Looking ahead to 2016, CPF will be facing major challenges in a very complex environment. Guided by the Board of Directors, CPF will seize opportunities and make progress on all fronts in an enterprising yet responsible way. The company will strive for the successful achievement of its business objectives while bolstering CNPC's core businesses, in a bid to deliver even stronger returns to our shareholders.

General Manager: Lan Yunsheng

Corporate Governance and Risk Control Report

In 2015, the company continues to follow the regulatory requirements of the People's Bank of China (PBOC) and China Banking Regulatory Commission (CBRC) and adopt the resolutions from the Board of Directors, CPF further improved its internal control and risk management capabilities.

I. Corporate Governance

The company strictly in complies with the Company Law and other applicable laws and regulations, CPF has developed a corporate governance framework comprising the Memorandum and Articles of Association, the Rules of Procedure for the Board of Shareholders, the Rules of Procedure for the Board of Directors, and the Rules of Procedure for the Supervisory Board etc., with the duties and responsibilities of these governing bodies clearly defined and effectively performed. In the corporate governance structure of CPF, the Board of Shareholders is the supreme governing body. Meanwhile, the Board of Directors is responsible for major business decisions, the Supervisory Board plays a monitoring role, and the company's management team is in charge of its day-to-day operation.

China National Petroleum Corporation (CNPC) and PetroChina Company Limited (PetroChina) currently share ownership of CPF. All members of board of directors and supervisory board possess expertise, strong insights and many years of experiences in financial management. During the reporting period, the members of the Board of Directors and the Supervisory Board expressed their views with due care and diligence in support of the Company's sustainable, fast-paced growth.

In 2015, the Board of Shareholders convened two meetings to consider six proposals and pass two resolutions. The Board of Directors convened one meeting in order to examine nine proposals and pass nine resolutions; the Supervisory Board convened once to review and issued opinions on forty-three of its proposals.

II. Internal Control and Risk Management

A. External Regulation

CBRC Beijing Office is the authority regulating the banking sector. The daily operations of CPF are under CBRC's on-site and off-site supervision. Meanwhile, CPF's business practices are under supervision of other

regulatory authorities, including the People's Bank of China, the National Audit Office, the State Administration of Foreign Exchange, and China Securities Regulatory Commission. With many years of great support from these regulators, CPF has been widely recognized for its business performance and management competence. CPF performed well in 2015 with its operations in good shape and risk mitigation measures in place, receiving no negative opinion from the regulators.

B. Internal Control Structure

In 2007, CPF began to build an internal control structure as one of the first participants of CNPC's internal control program. In 2008, the Internal Control Manual of China Petroleum Finance Co., Ltd. was developed with assistance from PricewaterhouseCoopers and the internal control system was officially launched. Since 2010, CPF's internal control system has passed the validation review of CNPC with satisfactory results for six consecutive years. In 2015, an annual assessment of critical controls and information systems was conducted and corrective actions were taken in accordance with CNPC's requirements. Meanwhile, the Internal Control Manual 2015 was released to keep the internal controls up to date, as part of the ongoing effort to support CPF's business objectives and facilitate standardized and procedure-based management of the company's business activities. In addition, the self test was completed in 2015, which further improved CPF's internal control capabilities.

C. Risk Management

1. Organizational structure for risk management. CPF has developed and maintained a hierarchical structure for risk management (as illustrated).



—Board of Directors: The Board of Directors is responsible for the review and approval of strategies, policies and procedures for risk management, assessment of the company's overall risk tolerance, monitoring and evaluation of comprehensiveness and effectiveness of risk controls as well as accountability of senior management in risk management;

—Board Committees: The Compensation & Risk Management Committee is authorized by the Board of Directors to develop risk management policies and oversee and evaluate the company's risk profile and risk management activities; the Budget & Investment Committee is authorized to develop budget and investment plans and identify investment portfolio as well as investment-related risk control requirements;

—General Manager / Management: The General Manager / Management is authorized to review and approve business activities, receive regularly reports from the risk management department and make sure risk mitigation measures are effectively implemented;

—Credit Review Team and Investment Review Team: These teams are responsible for reviewing the company's reports and agreements on credit business and investment in accordance with the risk policies and overall planning determined by the Board of Directors and reporting their opinions to the General Manager or an authorized member of management;

—Internal Audit Department: The department is responsible for monitoring business risks, implementing the company's risk policies, reviewing assets classification and auditing the company's business activities;

—Other Business Departments: These business units are responsible for mitigating risks in daily business activities.

In addition, CPF has retained perennial legal counsel services to provide legal opinions on new business and contracts to which the company is a relevant party.

In 2015, the Credit Review Team examined 67 loan agreements (reports) with a total amount of RMB 156,604 million; the Investment Review Team examined 26 investment agreements (reports) having a worth of RMB 21,429 million.

2. Credit risk management. CPF's credit business is progressively reviewed and approved by loan officer, department manager and general manager levels. In addition, because most of our loan clients are from CNPC's member companies and our business counterparties in interbank deposits and rediscounting are

mainly large and medium-sized state-owned banks, and therefore, the credit risk is relatively low and controllable.

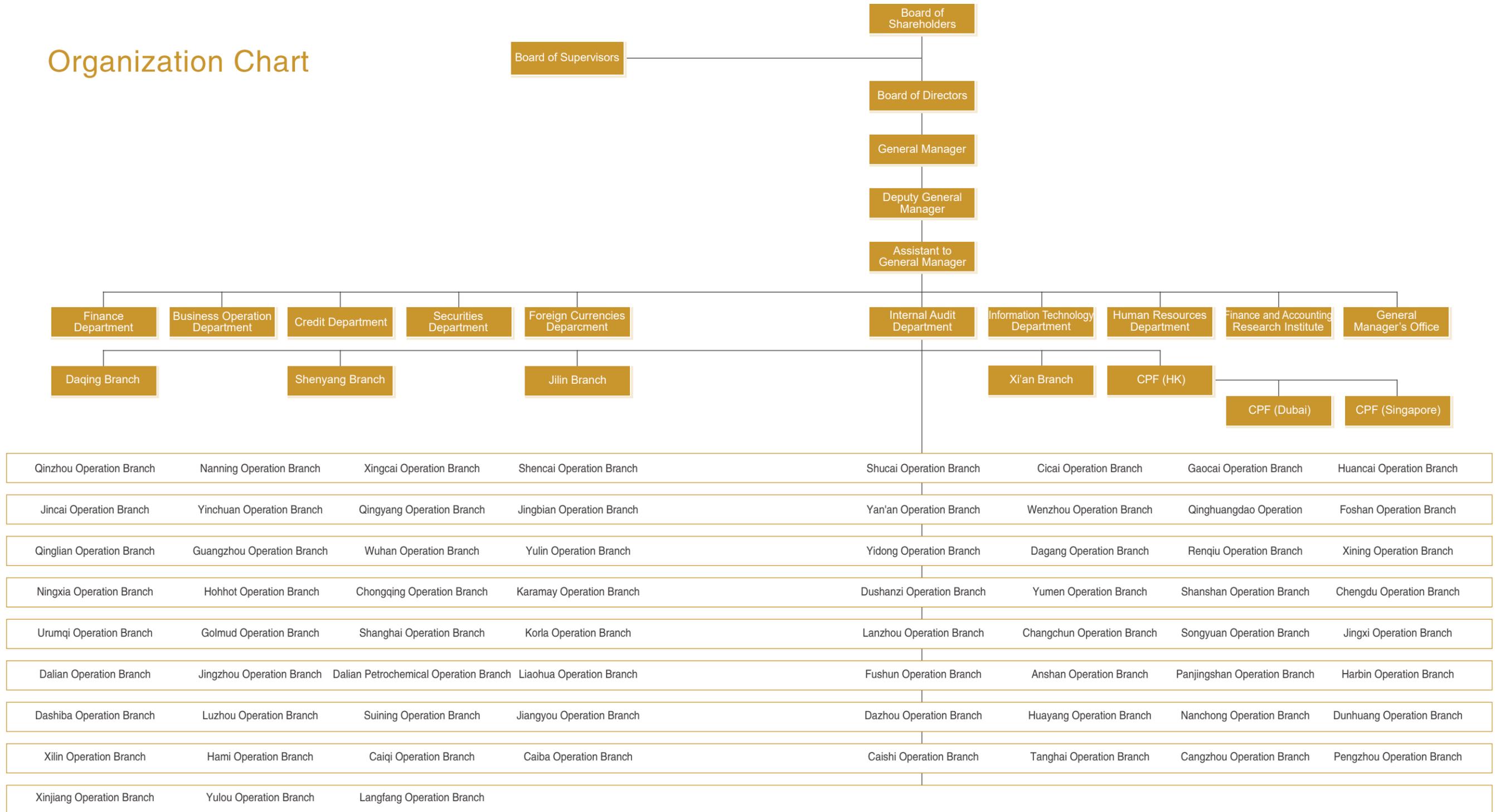
3. Market risk management. CPF invests mainly in low-risk products such as government bonds, high-rating corporate bonds, debentures, IPO subscriptions, guaranteed trust products etc. with investment privileges and stop-losses clearly defined to control and mitigate market risks.

4. Operational risk management. CPF control operational risks mainly through developing and maintaining sophisticated systems, procedures and authorization mechanisms. In recent years, CPF has constantly revised its systems and streamlined business processes to meet the needs of business growth. Currently, the company has developed 42 sets of management rules, 129 operational procedures and 48 integrated systems that are designed to provide for functions and duties and regulate business operations and authorization processes, aiming at ensuring the company's business activities are managed in a systematic and standardized manner. Meanwhile, the Internal Audit Department has heightened regulation of business procedures based on the results of internal control review to streamline these procedures and avoid operating risks.

5. Liquidity risk management. CPF effectively manages its liquidity risks mostly through optimizing asset allocation, enhancing its financial capability and exploring the potential of positional sizing. Meanwhile, CPF achieved in expanding the comprehensive credit scale through partnering with other financial institutions. We signed corporate account overdraft agreements with BOC, CCB, ABC and ICBC to ensure the capital turnover. In 2015, CPF's information system worked well, providing solid foundation for liquidity risk management and preparing for the launch of a balance sheet management system and a position management system.

Looking ahead to 2015, CPF will be further in accordance with the requirements of regulatory, continue to bolster the institutional framework for the Board of Shareholders, the Board of Directors and the Supervisory Board, focusing on performance of duties and responsibilities of these governing bodies and streamlining of the decision-making process. Internal control and risk management will remain our top priority and our internal audit actions will maintain a focus on in-process monitoring and internal control review in order to identify risk management weaknesses and risk factors. Meanwhile, we will continue to foster risk awareness and heighten risk management measures to improve risk prevention throughout the whole process of risk management.

Organization Chart





2. Financial Position and Operating Results of 2015

Financial Highlights (Consolidated)

RMB in million

Year	2010	2011	2012	2013	2014	2015
Profit before tax	4,067.4	4,569.56	6,097.06	6,476.96	6,655.03	6,854.68
Profit after tax	3,293.73	3,510.71	4,688.5	5,237.26	5,432.06	5,820.28
Interest income	10,250.58	13,685.86	13,608.39	13,485.7	14,551.57	13,898.99
Return on investment	226.77	24.23	462.33	260.58	760.43	1,900.51
Interest expense	5,208.92	6,275.01	6,416.19	5,734.80	6,420.45	6,450.69
Operating and administrative expenses	140.53	174.28	190.90	222.41	238.83	238.79
Total assets	460,404.09	503,485.4	593,913.13	649,208.46	640,467.06	640,060.44
Loans and entrusted loans	255,136.61	301,704.16	396,054.14	505,991.5	504,174.75	506,623.13
Total liabilities	438,235.35	477,722.44	563,245.51	613,930.37	601,741.98	596,487.64
Deposits and entrusted funds	378,183.98	399,298.56	486,081.70	496,244.27	473,560.93	471,727.07
Owner's equity	22,168.74	25,762.96	30,667.62	35,278.09	38,725.08	43,572.8

An Overview of Financial Position and Operating Results

Under the strong leadership of CNPC and the company's top management, the company strived to implement guidelines for quality-oriented, cost-efficient and sustainable growth in 2015 amidst a complicated situation. The company successfully achieved its business targets and objectives by lowering costs, boosting operational efficiency as well as improving business and service competencies. In addition, the company's key business indicators continued to lead in the industry.

In 2015, CPF recorded profit before tax of RMB 6,855 million, increased by RMB 200 million or 3% from the previous year. The total assets as at the end of 2015 were RMB 640,060 million (comprising assets owned and managed by CPF, i.e. RMB 390,927 million and RMB 249,134 million respectively), decreased by RMB 407 million or 0.1% from the previous year. Seeking the balance among safety, liquidity and profitability, CPF stepped up risk management to ensure that its business grows in a healthy and robust manner. As at the end of 2015, the rate of return on capital and the liquidity ratio were 14.17% and 46.04% respectively. The capital adequacy ratio stood at 13.12%. Non-performing asset ratio remained 0.00%. Asset loss reserve adequacy ratio was 353.4%.



3. Auditors' Report and Financial Statements for The Year Ended December 31, 2015



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AUDITORS' REPORT

PCPAR [2016] No. 120377

To China Petroleum Finance Co., Ltd.,

We have audited the accompanying financial statements (consolidated and parent company) of China Petroleum Finance Co., Ltd. (hereinafter referred to as "the Company"), which comprise the balance sheet as of December 31, 2015, the income statement, the statement of cash flows, the statement of changes in owners' equity and the statement of provision for impairment of assets for the year then ended and notes to the financial statements.

Management's responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises to achieve a fair presentation; (2) designing, implementing and maintaining internal control that is necessary to ensure that the financial statements are free from material misstatements, whether due to fraud or error.

Responsibilities of Auditors

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment on the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, such financial statements are prepared in conformity with Accounting Standards for Business Enterprises and in all material respects, present fairly the financial position of the Company as of December 31, 2015, the results of its operations and cash flows for the year then ended.

BDO China Shu Lun Pan
Certified Public Accountants LLP



Shanghai, China

Certified Public Accountant of China:
Ge Qin



Certified Public Accountant of China:
Huang Hai



January 27, 2016

Consolidated Balance Sheet

2015-12-31 Prepared by: China Petroleum Finance Co., Ltd.

Monetary Unit: RMB

Item	Note 8	Amount as at December 31, 2015	Amount as at January 1, 2015
Assets:			
Cash and balances with central bank	1	14,613,463,210.29	24,675,745,492.28
Deposits due from banks and other financial institutions	2	84,976,019,182.10	60,674,748,259.20
Precious metal		-	-
Loans to banks and other financial institutions		-	-
Financial assets held for trading	3	1,473,513,940.46	9,203,026,151.89
Derivative financial assets	4	708,878,770.91	635,020,738.71
Financial assets purchased under resale agreements		-	-
Interests receivable	5	1,009,853,508.69	914,185,504.16
Disbursement of advances and loans	6	243,972,699,799.36	234,926,742,617.81
Available-for-sale financial assets	7	15,707,394,965.58	10,761,218,713.49
Held-to-maturity investments	8	26,132,200,000.00	37,905,280,432.75
Long-term equity investments		-	-
Investment property		-	-
Fixed assets	9	198,891,429.93	204,028,384.50
Intangible assets	10	584,721.91	79,825.99
Deferred income tax assets	11	2,532,401,313.39	2,035,639,698.70
Other assets	12	248,734,536,705.18	258,531,346,900.25
Total Assets		640,060,437,547.80	640,467,062,719.73
Liabilities:			
Borrowings from central bank		-	-
Deposits due to banks and other financial institutions	13	6,519,151,371.58	5,843,174,273.01
Loans from banks and other financial institutions	14	61,432,590,560.03	45,219,410,000.00
Financial liabilities held for trading		-	-
Derivative financial liabilities	4	770,439,377.63	364,181,730.91
Financial assets sold under repurchase agreements		5,000,000,000.00	-
Absorption of deposits	15	216,074,283,640.55	213,362,163,944.77
Employee compensation payable	16	35,111,046.10	34,270,513.38
Taxes and surcharges payable	17	267,439,025.19	207,808,540.51
Interests payable	18	1,731,314,159.28	1,587,147,901.34
Estimated liabilities		-	-
Bonds payable	19	55,319,015,208.25	74,605,332,590.25
Long-term employee compensation payable		-	-
Deferred income tax liabilities	11	125,099,354.23	185,470,773.61
Other liabilities	20	249,213,191,667.57	260,333,022,343.03
Total liabilities		596,487,635,410.41	601,741,982,610.81
Owners' equity:			
Paid-in capital	21	5,441,000,000.00	5,441,000,000.00
Other equity instruments		-	-
Including: preferred stock		-	-
Perpetual capital securities		-	-
Capital reserves	22	7,852,106,560.00	7,852,106,560.00
Less: treasury stock		-	-
Other comprehensive income	35	552,282,286.57	236,367,716.90
Including: Foreign currency translation differences		163,533,289.82	-380,725,455.83
Surplus reserves	23	9,241,013,706.86	8,249,841,813.55
General risk reserve	24	5,782,080,915.22	5,457,347,041.57
Undistributed profits	25	14,704,318,668.74	11,488,416,976.90
Equity attributable to owners of the parent company		43,572,802,137.39	38,725,080,108.92
Minority equity		-	-
Total owners' equity		43,572,802,137.39	38,725,080,108.92
Total liabilities and owners' equity		640,060,437,547.80	640,467,062,719.73

Accompanying notes to financial statements are an integral part of the financial statements.

The Parent Company's Balance Sheet

2015-12-31 Prepared by: China Petroleum Finance Co., Ltd.

Monetary Unit: RMB

Item	Note 12	Amount as at December 31, 2015	Amount as at January 1, 2015
Assets:			
Cash and balances with central bank		14,613,463,210.29	24,675,745,492.28
Deposits due from banks and other financial institutions		35,948,190,229.35	30,057,264,951.74
Precious metal		-	-
Loans to banks and other financial institutions		-	-
Financial assets held for trading		1,277,281,772.94	9,025,775,937.76
Derivative financial assets		-	-
Financial assets purchased under resale agreements		-	-
Interests receivable		370,247,744.69	419,453,491.32
Disbursement of advances and loans	1	135,549,980,168.35	106,630,577,918.30
Available-for-sale financial assets		10,726,648,636.56	7,922,678,900.08
Held-to-maturity investments		26,132,200,000.00	37,905,280,432.75
Long-term equity investments	2	2,683,060,000.00	2,683,060,000.00
Investment property		-	-
Fixed assets		15,620,721.05	15,889,912.38
Intangible assets		584,721.91	79,825.99
Deferred income tax assets		1,380,973,032.96	1,210,066,623.54
Other assets		238,543,945,354.03	254,507,620,966.98
Total Assets		467,242,195,592.13	475,053,494,453.12
Liabilities:			
Borrowings from central bank		-	-
Deposits due to banks and other financial institutions		6,519,151,371.58	5,843,174,273.01
Loans from banks and other financial institutions		-	-
Financial liabilities held for trading		-	-
Derivative financial liabilities		-	-
Financial assets sold under repurchase agreements		5,000,000,000.00	-
Absorption of deposits		174,266,028,101.63	175,075,322,631.28
Employee compensation payable		35,111,046.10	34,270,513.38
Taxes and surcharges payable		238,410,152.24	206,227,757.29
Interests payable		1,283,827,985.26	1,278,211,798.80
Estimated liabilities		-	-
Bonds payable		-	-
Long-term employee compensation payable		-	-
Deferred income tax liabilities		116,973,126.26	185,470,773.61
Other liabilities		239,032,825,811.46	254,577,500,905.92
Total liabilities		426,492,327,594.53	437,200,178,653.29
Owners' equity:			
Paid-in capital		5,441,000,000.00	5,441,000,000.00
Other equity instruments		-	-
Including: preferred stock		-	-
Perpetual capital securities		-	-
Capital reserves		7,852,106,560.00	7,852,106,560.00
Less: treasury stock		-	-
Other comprehensive income		347,625,358.20	603,884,315.39
Including: Foreign currency translation differences		-	-
Surplus reserves		8,281,935,908.91	7,392,410,150.15
General risk reserve		3,250,957,449.27	3,525,411,309.49
Undistributed profits		15,576,242,721.22	13,038,503,464.80
Equity attributable to owners of the parent company		40,749,867,997.60	37,853,315,799.83
Minority equity		-	-
Total owners' equity		40,749,867,997.60	37,853,315,799.83
Total liabilities and owners' equity		467,242,195,592.13	475,053,494,453.12

Accompanying notes to financial statements are an integral part of the financial statements.

Consolidated Income Statement

2015-12-31 Prepared by: China Petroleum Finance Co., Ltd.

Monetary Unit: RMB

Item	Note 8	Year 2015	Year 2014
1. Operating income		10,334,797,521.31	9,703,235,560.90
Net interest income	26	7,448,305,263.82	8,131,112,039.42
Interest income		13,898,991,576.93	14,551,566,894.04
Interest expenses		6,450,686,313.11	6,420,454,854.62
Net income from handling charges and commissions	27	652,769,338.40	787,804,388.21
Income from handling charges and commissions		658,886,732.35	792,501,573.91
Handling charges and commissions expenses		6,117,393.95	4,697,185.70
Investment income ("-" for losses)	28	1,900,509,111.38	760,433,682.35
Including: Income from investment in associates and joint ventures		-	-
Gains from changes in fair value ("-" for losses)	29	-1,761,853.25	48,809,836.19
Foreign exchange gains ("-" for losses)	30	334,950,761.13	-25,121,776.39
Income from other businesses		24,899.83	197,391.12
2. Operating expenses		3,481,813,488.31	3,050,565,035.88
Business taxes and surcharges		485,675,921.41	499,553,787.60
Operation and administrative expense		238,791,406.67	238,826,894.63
Losses from asset impairment	31	2,756,840,876.83	2,312,089,892.31
Costs of other businesses		505,283.40	94,461.34
3. Operating profits ("-" for losses)		6,852,984,033.00	6,652,670,525.02
Plus: Non-operating income	32	1,750,291.00	2,376,272.77
Less: Non-operating expenses	33	54,616.42	15,557.46
4. Total profits ("-" for total losses)		6,854,679,707.58	6,655,031,240.33
Less: Income tax expenses	34	1,034,397,353.55	1,222,970,760.32
5. Net profit ("-" for net loss)		5,820,282,354.03	5,432,060,480.01
Net profit attributable to owners of the parent company		5,820,282,354.03	5,432,060,480.01
Minority interest income		-	-
6. Net of tax of other comprehensive income	35	315,914,569.67	560,541,882.08
(1) Other comprehensive income that cannot be reclassified into gains and losses subsequently		-	-
Including: a. Changes in net liabilities or net assets arising from re-measurement of defined benefit plan		-	-
b. Share in other comprehensive income of the investee cannot be reclassified into gains and losses under the equity method		-	-
(2) Other comprehensive income to be reclassified into gains and losses subsequently		-	560,541,882.08
Including: a. Share in other comprehensive income of the investee to be reclassified into gains and losses under the equity method		-	-
b. Gains and losses on changes in fair value of financial assets available for sale		-257,088,126.81	509,839,543.39
c. Gains and losses arising from reclassification of held-to-maturity investments as financial assets available for sale		28,743,950.83	19,479,515.66
d. Effective portion of cash flow hedging gains and losses		-	-
e. Translation differences of financial statements denominated in foreign currency		544,258,745.65	31,222,823.03
7. Total comprehensive incomes		6,136,196,923.70	5,992,602,362.09
Total comprehensive income attributable to owners of the parent company		6,136,196,923.70	5,992,602,362.09
* Total comprehensive income attributable to minority shareholders		-	-
8. Earnings per share:			
Basic earnings per share		-	-
Diluted earnings per share		-	-

Accompanying notes to financial statements are an integral part of the financial statements.

The Parent Company's Income Statement

2015-12-31 Prepared by: China Petroleum Finance Co., Ltd.

Monetary Unit: RMB

Item	Note 12	Year 2015	Year 2014
1. Operating income		7,307,981,701.98	7,346,434,779.98
Net interest income	3	5,166,698,273.68	6,077,961,349.35
Interest income		9,299,022,729.00	10,621,479,351.09
Interest expenses		4,132,324,455.32	4,543,518,001.74
Net income from handling charges and commissions	4	401,424,612.01	502,256,658.22
Income from handling charges and commissions		406,191,360.71	504,010,251.22
Handling charges and commissions expenses		4,766,748.70	1,753,593.00
Investment income ("-" for losses)	5	1,709,394,185.20	758,668,038.09
Including: Income from investment in associates and joint ventures		-	-
Gains from changes in fair value ("-" for losses)		-9,892,698.58	25,775,937.76
Foreign exchange gains ("-" for losses)		40,332,429.84	-18,424,594.56
Income from other businesses		24,899.83	197,391.12
2. Operating expenses		1,619,565,317.13	447,456,686.92
Business taxes and surcharges		486,148,846.19	499,630,272.06
Operation and administrative expense		151,974,055.87	184,840,988.06
Losses from asset impairment		980,937,131.67	-237,109,034.54
Costs of other businesses		505,283.40	94,461.34
3. Operating profits ("-" for losses)		5,688,416,384.85	6,898,978,093.06
Plus: Non-operating income		1,750,291.00	2,375,921.00
Less: Non-operating expenses		6,906.42	15,557.46
4. Total profits ("-" for total losses)		5,690,159,769.43	6,901,338,456.60
Less: Income tax expenses		1,248,873,719.24	1,571,889,414.53
5. Net profit ("-" for net loss)		4,441,286,050.19	5,329,449,042.07
Net profit attributable to owners of the parent company		4,441,286,050.19	5,329,449,042.07
Minority interest income		-	-
6. Net of tax of other comprehensive income		-256,258,957.19	527,271,940.58
(1) Other comprehensive income that cannot be reclassified into gains and losses subsequently		-	-
Including: a. Changes in net liabilities or net assets arising from re-measurement of defined benefit plan		-	-
b. Share in other comprehensive income of the investee cannot be reclassified into gains and losses under the equity method		-	-
(2) Other comprehensive income to be reclassified into gains and losses subsequently		-	527,271,940.58
Including: a. Share in other comprehensive income of the investee to be reclassified into gains and losses under the equity method		-	-
b. Gains and losses on changes in fair value of financial assets available for sale		-256,258,957.19	527,271,940.58
c. Gains and losses arising from reclassification of held-to-maturity investments as financial assets available for sale		-	-
d. Effective portion of cash flow hedging gains and losses		-	-
e. Translation differences of financial statements denominated in foreign currency		-	-
7. Total comprehensive incomes		4,185,027,093.00	5,856,720,982.65
Total comprehensive income attributable to owners of the parent company		4,185,027,093.00	5,856,720,982.65
* Total comprehensive income attributable to minority shareholders		-	-
8. Earnings per share:			
Basic earnings per share		-	-
Diluted earnings per share		-	-

Accompanying notes to financial statements are an integral part of the financial statements.

Consolidated Statement of Cash Flows

2015-12-31 Prepared by: China Petroleum Finance Co., Ltd.

Monetary Unit: RMB

Item	Year 2015	Year 2014
1. Cash flows from operating activities:	-	-
Net increase in deposits from customers and other banks	11,065,965,527.79	893,918,528.21
Net increase in borrowings from central bank	-	-
Net increase in loans from other financial institutions	21,213,180,560.03	-
Net decrease in loans and advances to customers	24,490,198,224.19	17,056,095,981.73
Net decrease in deposits in central bank and other banks	10,311,666,804.56	5,335,232,237.75
Cash received from interests, handling charges and commissions	14,462,210,304.75	15,573,441,933.82
Cash received from other operating activities	20,352,490,098.78	56,143,799,440.21
Sub-total of cash inflows from operating activities	101,895,711,520.10	95,002,488,121.72
Net increase in loans and advances to customers	36,719,930,786.97	8,295,630,246.26
Net increase in deposits in central bank and other banks	32,065,771,286.91	12,144,629,087.07
Net decrease in deposits from customers and other banks	7,677,868,733.44	27,003,165,373.54
Net decrease in borrowings from central bank	-	-
Net decrease in loans from other financial institutions	-	14,164,396,000.00
Cash paid for interests, handling charges and commissions	6,312,637,449.12	6,485,606,393.11
Cash paid to and on behalf of employees	82,321,645.69	82,448,037.49
Cash paid for taxes and surcharges	1,946,485,743.25	2,557,822,625.34
Cash paid for other operating activities	25,954,548,341.73	57,574,969,467.05
Sub-total of cash outflows from operating activities	110,759,563,987.11	128,308,667,229.86
Net cash flows from operating activities	-8,863,852,467.01	-33,306,179,108.14
2. Cash flows from investing activities:	-	-
Cash received from disposal of investments	115,765,202,973.21	70,963,086,312.61
Cash received from returns on investments	-	-
Cash received from other investing activities	59,000.00	1,568.93
Sub-total of cash inflows from investing activities	115,765,261,973.21	70,963,087,881.54
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets	2,647,844.80	308,236.34
Cash paid for investments	99,193,845,270.03	64,596,352,595.53
Cash paid for other investing activities	-	-
Sub-total of cash outflows from investing activities	99,196,493,114.83	64,596,660,831.87
Net cash flows from investing activities	16,568,768,858.38	6,366,427,049.67
3. Cash flows from financing activities:	-	-
Cash from absorption of investments	-	-
Cash received from bonds issue	-	18,248,305,143.50
Cash received from other financing activities	-	4,984,262,864.33
Sub-total of cash inflows from financing activities	-	23,232,568,007.83
Cash paid for distribution of dividends or profits	1,296,880,079.86	2,541,635,565.16
Cash paid for debt repayments	-	500,000,000.00
Cash paid for other financing activities	19,286,317,382.00	-
Sub-total of cash outflows from financing activities	20,583,197,461.86	3,041,635,565.16
Net cash flows from financing activities	-20,583,197,461.86	20,190,932,442.67
4. Effect of fluctuation in exchange rate on cash	5,363,165,229.05	-221,013,634.03
5. Net increase in cash and cash equivalents	-7,515,115,841.44	-6,969,833,249.83
Plus: balance of cash and cash equivalents at the beginning of the period	48,228,774,590.68	55,198,607,840.51
6. Balance of cash and cash equivalents at the end of the period	40,713,658,749.24	48,228,774,590.68

Accompanying notes to financial statements are an integral part of the financial statements.

The Parent Company's Statement of Cash Flows

2015-12-31 Prepared by: China Petroleum Finance Co., Ltd.

Monetary Unit: RMB

Item	Year 2015	Year 2014
1. Cash flows from operating activities:	-	-
Net increase in deposits from customers and other banks	1,217,501,714.31	163,542,268.37
Net increase in borrowings from central bank	-	-
Net increase in loans from other financial institutions	5,000,000,000.00	-
Net decrease in loans and advances to customers	1,249,254,691.67	15,820,691,170.22
Net decrease in deposits in central bank and other banks	10,311,666,804.56	5,335,232,237.75
Cash received from interests, handling charges and commissions	9,754,419,836.34	11,289,205,226.25
Cash received from other operating activities	15,965,652,403.81	31,567,265,400.79
Sub-total of cash inflows from operating activities	43,498,495,450.69	64,175,936,303.38
Net increase in loans and advances to customers	31,576,596,990.64	537,346,884.12
Net increase in deposits in central bank and other banks	353.24	150,099,542.09
Net decrease in deposits from customers and other banks	1,350,819,145.39	28,875,294,945.15
Net decrease in borrowings from central bank	-	-
Net decrease in loans from other financial institutions	-	2,438,760,000.00
Cash paid for interests, handling charges and commissions	4,131,475,017.56	4,645,109,843.11
Cash paid to and on behalf of employees	71,392,030.56	71,611,783.96
Cash paid for taxes and surcharges	1,865,533,895.18	2,500,262,597.11
Cash paid for other operating activities	15,589,205,533.87	32,033,899,215.43
Sub-total of cash outflows from operating activities	54,585,022,966.44	71,252,384,810.97
Net cash flows from operating activities	-11,086,527,515.75	-7,076,448,507.59
2. Cash flows from investing activities:	-	-
Cash received from disposal of investments	115,208,071,925.40	70,834,097,674.66
Cash received from returns on investments	-	-
Cash received from other investing activities	59,000.00	1,568.93
Sub-total of cash inflows from investing activities	115,208,130,925.40	70,834,099,243.59
Cash paid to acquire and construct fixed assets, intangible assets and other long-term assets	2,426,379.27	216,184.00
Cash paid for investments	96,705,641,270.03	64,238,355,795.53
Cash paid for other investing activities	-	-
Sub-total of cash outflows from investing activities	96,708,067,649.30	64,238,571,979.53
Net cash flows from investing activities	18,500,063,276.10	6,595,527,264.06
3. Cash flows from financing activities:	-	-
Cash from absorption of investments	-	-
Cash received from bonds issue	-	-
Cash received from other financing activities	-	-
Sub-total of cash inflows from financing activities	-	-
Cash paid for distribution of dividends or profits	1,296,880,079.86	2,541,635,565.16
Cash paid for debt repayments	-	-
Cash paid for other financing activities	-	-
Sub-total of cash outflows from financing activities	1,296,880,079.86	2,541,635,565.16
Net cash flows from financing activities	-1,296,880,079.86	-2,541,635,565.16
4. Effect of fluctuation in exchange rate on cash	23,653,766.45	23,653,766.45
5. Net increase in cash and cash equivalents	6,140,309,446.94	-2,998,903,042.24
Plus: balance of cash and cash equivalents at the beginning of the period	29,605,820,828.20	32,604,723,870.44
6. Balance of cash and cash equivalents at the end of the period	35,746,130,275.14	29,605,820,828.20

Accompanying notes to financial statements are an integral part of the financial statements.