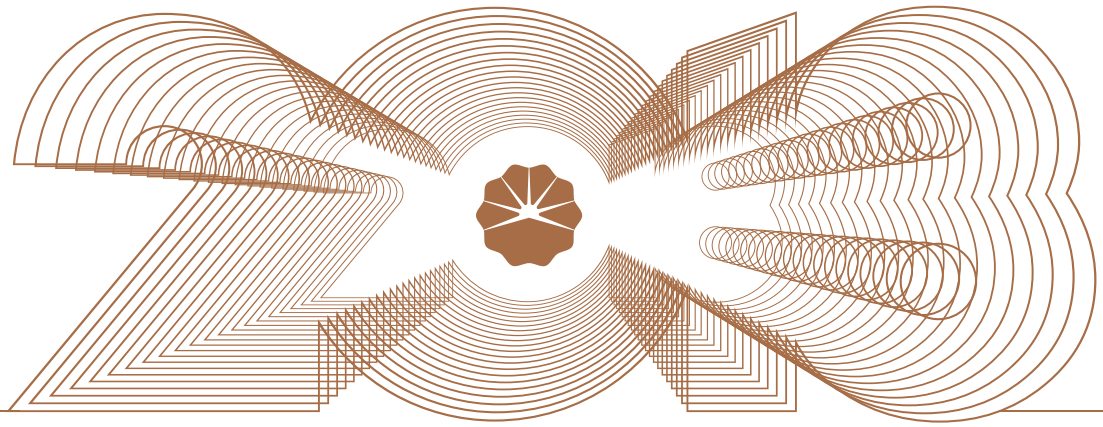

Annual Report

中油财务有限责任公司
China Petroleum Finance Company Limited

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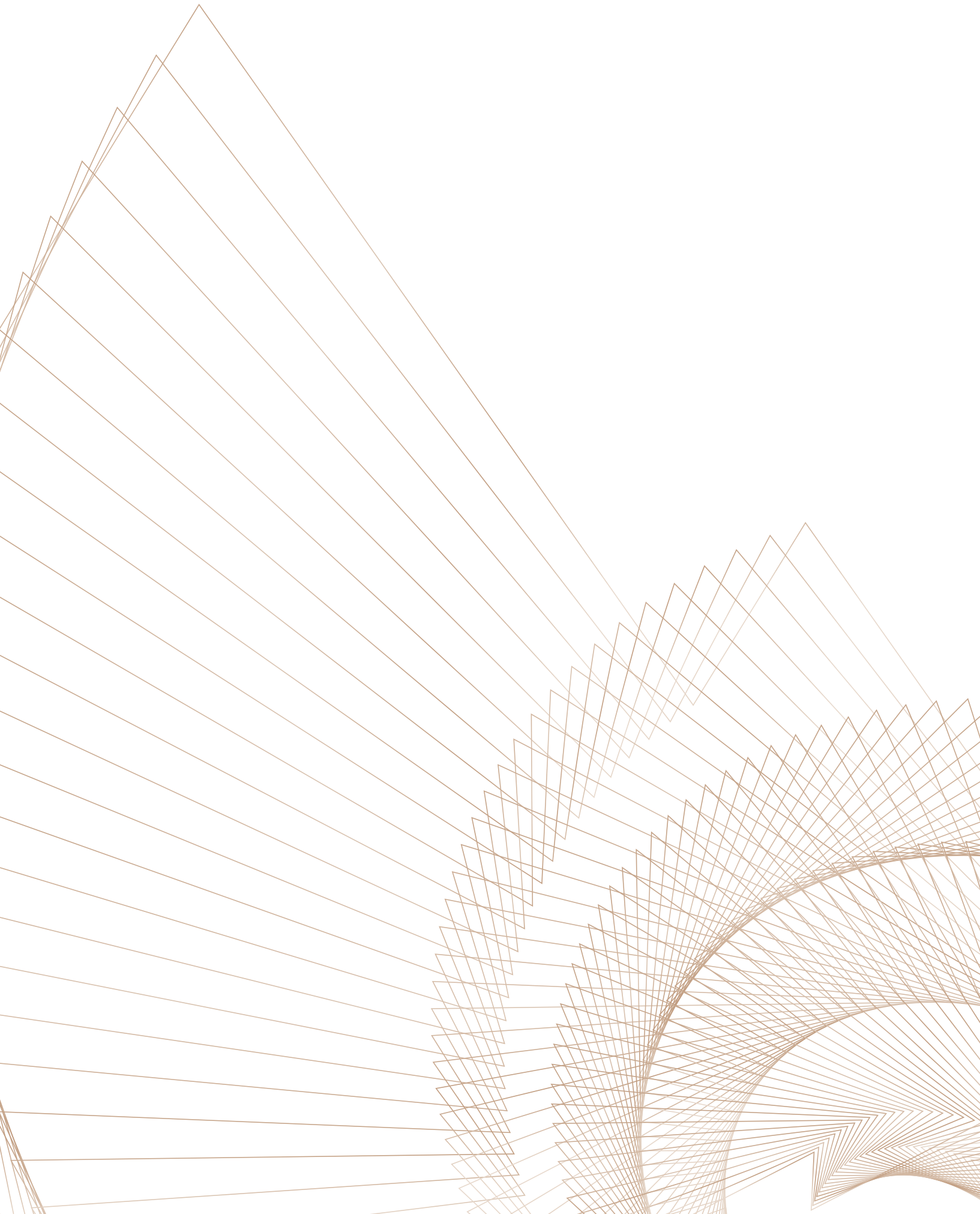
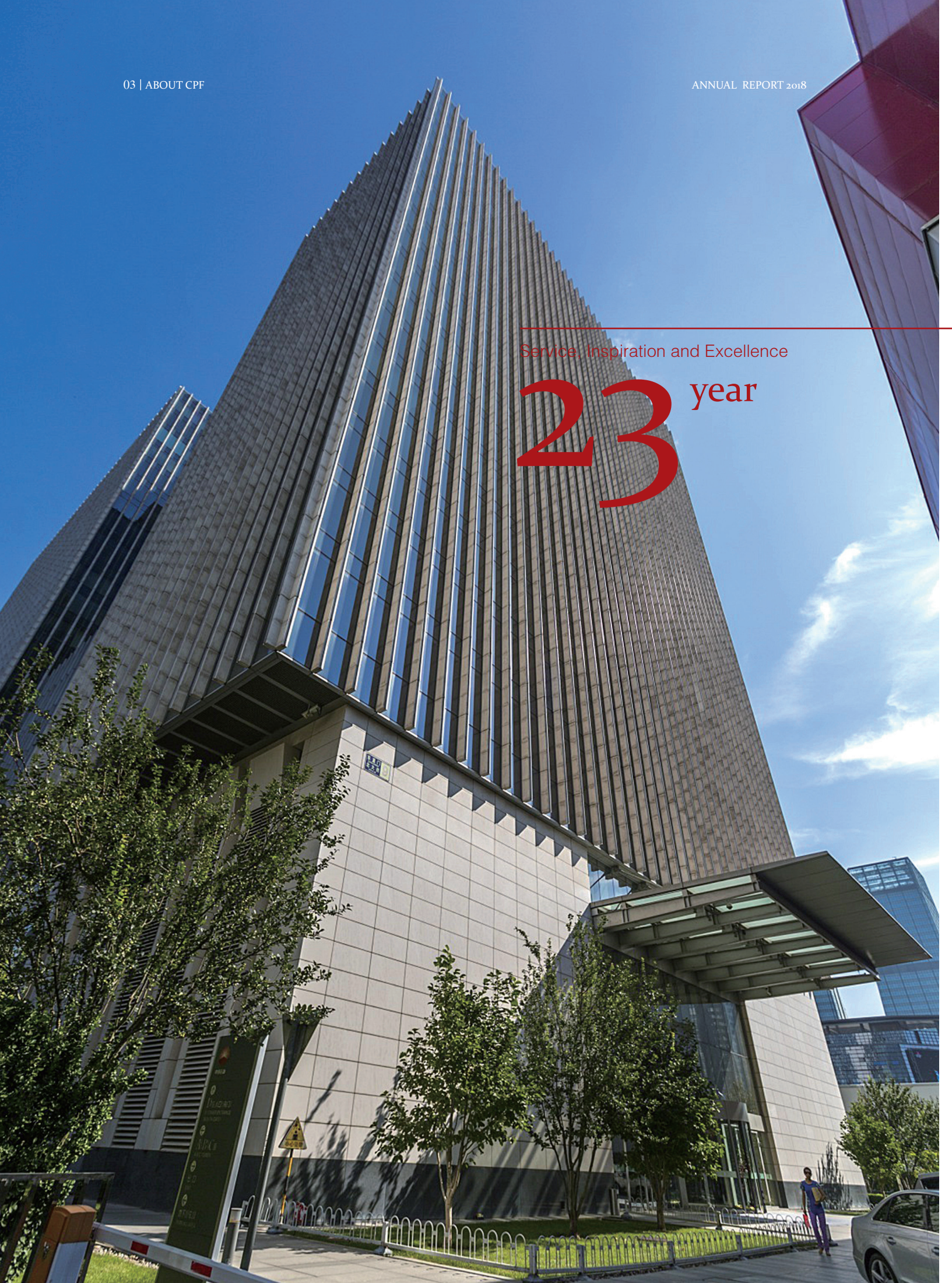
ABOUT CPF





Service, Inspiration and Excellence

23 year

Corporate Profile

Jointly owned by China National Petroleum Corporation (herein referred to as "CNPC") and some of CNPC's member companies, China Petroleum Finance Company Limited (herein 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 at National Inter-bank Bond Markets and China Foreign Exchange Trading Center and is licensed by China Securities Regulatory Commission as one of the first IPO issued price inquiring agency.

Serving as CNPC's internal bank, capital pool and treasury platform, CPF has been playing a significant role in supporting CNPC's business and capital management needs and facilitating the development of China's oil industry over the past 23 years since its establishment in December 1995, under the doctrine of "Service, Inspiration and Excellence". With the support of CNPC and its member companies, CPF has maintained a healthy and stable growth in settlement amount, size of assets, revenue and profit, and showed outstanding regulatory compliance for many years in a row, making it one of China's leading financial organizations in terms of asset size, business portfolio and profitability.

As at the end of 2018, the Company has three shareholders and a registered capital of RMB 8.331 billion. The Company's headquarters comprises 11 departments, i.e. Finance, Business Operation, Credit, Securities, International Operation, Risk Management, Internal Audit, Information Technology, Human Resources (CPC Organization Department), Finance and Accounting Research Institute and the General Manager's office (Party-Masses Relations). The Company has four domestic branches in Daqing, Shenyang, Jilin and Xi'an and 19 business divisions where CNPC member companies are located. Currently, CPF has a widespread network to provide a broad spectrum of financial products and services for over 400 member companies engaging in oil and gas exploration & development, refining & chemicals, pipeline transportation, marketing of oil/gas refined products, and oilfield services & petroleum engineering. As part of its ongoing effort to "go global", CPF set up its first overseas branch CNPC Finance (HK) Ltd. in March 2008 and opened branch offices in Dubai and Singapore with the approval of China Banking Regulatory Commission to provide cross-border financial services in support of CNPC's internationalization strategies.

CPF focuses on the following financial services in both RMB and 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 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 People's Bank of China, China Banking and Insurance Regulatory Commission and State Administration of Foreign Exchange, CPF is responsible for the central operation and management of CNPC' s foreign-currency funds, i.e.,collection, payment and management of foreign currency funds for general domestic projects, central operation and management of cross-border foreign-currency funds, two-way cross-border RMB cash pooling, foreign exchange transactions and trading of derivatives, etc.

Message from the Chairman of the Board

Chairman: Liu Yuezhen

Along with the escalation in the Sino-US trade war, ongoing pressure on Chinese economy, tightening financial regulations and volatility in the capital market, the economic and financial climate has been undergoing profound changes at home and abroad during 2018.

Faced with these complexities, the company has taken advantage of a rally in oil prices and opportunities offered by the "Belt and Road" to expand its service offering, reduce cost and improve efficiency and build up capabilities for delivering services, generating profit, promoting innovation and mitigating risks in line with the general principle of steady and robust growth. The company's business objectives for the year have been achieved, posting RMB 594.4 billion in year-end total assets, RMB 17.94 billion in revenue, and RMB 9.18 billion in profit, with non-CNPC profit accounting for 51.2%. Alongside business growth, we have continued to create values for our shareholders and share our success with our customers by delivering innovative products and premium services at favorable price.

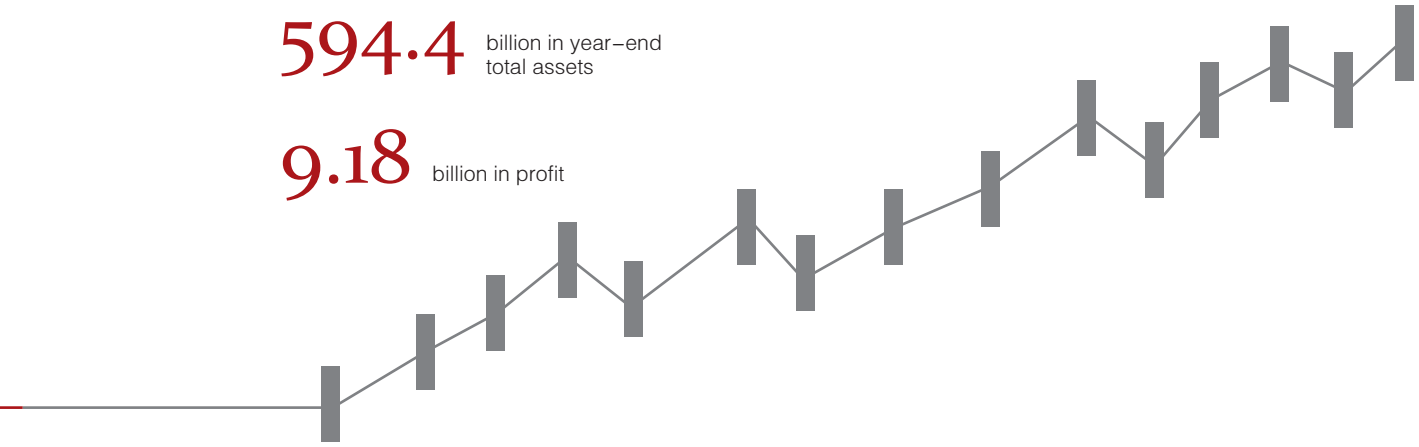
The company has outstanding performance for the year 2018 in the following four aspects:

I. Corporate Governance and Operating Mechanisms

Leveraging the integration of CPC leadership into our corporate governance practices, the company has optimized its corporate governance framework and recognized the statutory nature of CPC in corporate governance. The company's articles of association have been revised to include provisions on CPC party building and legalization. The rules of procedure for party committee, board of shareholders, board of directors, supervisory board and board committees have been updated accordingly to ensure accountability, balancing and coordination and facilitate ongoing efforts in support of CNPC's core operation, real-economy activities and risk control. After smooth transition in the board of directors, supervisory board and top management, the approval of new board members and senior executives and the auditing of former board members and senior executives are under way. The company's corporate governance bodies are functioning in a consistent and stable manner. Our investment and credit committees are making major progress in decision making, risk management and execution. A hierarchical structure for delegation of power is taking shape, enabling efficiency improvements in decision making and approval through the streamlining of procedures, roles and components. The effective and well-controlled model of delegation has contributed to the company's long-term regulatory compliance.

II. Serving CNPC's Strategy with a Focus on Oil and Gas Operations

Leveraging its expertise in "cash sweeping, settlement, monitoring and financial services", CPF has continued to strive for innovation and align its service offering with CNPC's oil and gas operations. The company settled 22.88 million transactions throughout the year, amounting to RMB 48 trillion. The full-year lending in RMB and foreign currencies to member companies totaled RMB 228.1 billion. Meanwhile, the company posted US$ 79.4



billion in foreign exchange transactions. In particular, the company made US$ 1.77 billion in loans available to the projects along the "Belt and Road" route. The full-year lending to the "Jing-Jin-Ji Metropolitan Region" reached RMB 159.5 billion. The company distributed "green loans" totaling RMB 16.2 billion at home and abroad for the full year.

III. Industry-finance Coordination and Inter-institutional Cooperation

The company has continued to align financial services with production needs and promote collaboration between financial institutions in CNPC's best interests. The Master Treasury System - Phase II including 109 companies, is offering financial support as well as cash sweeping, settlement, credit and financing services that are centered on the key activities of CNPC and the financial needs in the transformation of its member companies. As the company continued to broaden access to low-cost sources of funding, the funds raised throughout the year reached RMB 811.2 billion, i.e. over RMB 2.2 billion per day, to meet liquidity needs of CNPC's member companies. CPF is working closely with CNPC Capital's business divisions to create synergy benefits and bolster CNPC Capital's performance as a listed company.

IV. Risk Management and Regulatory Compliance

Based on a holistic approach to risk management, the company has optimized its credit management and risk mitigation systems by launching the Guidelines on Comprehensive Risk Management and 5 risk management procedures and preparing the list of counterparties. As at the end of 2018, the company achieved non-performing asset ratio of 0, the asset loss reserve adequacy ratio of 465.96%, the liquidity ratio of 45% and the capital adequacy ratio of 19.16%, indicating that the risk control had been effective and successful. The company has continued to improve its business procedures and internal controls through validation of internal controls and streamlining of procedures. Internal auditing has been strengthened to ensure auditing and monitoring activities are conducted in a timely and reliable manner. A culture of compliance has been fostered to promote compliance awareness among employees, ensure compliance with laws, regulations and regulatory policies, and pursue a higher level of ethical integrity.

Marking the 70th anniversary of the People's Republic of China, the year 2019 will be a critical year for achieving the objectives of the "13th Five-Year Plan". Navigating the complexities in the political, economic and financial environments at home and abroad with a strong commitment to bolstering CNPC's business operation, the company will strive for innovation-driven value creation and serve the needs of CNPC for centralized cash management, cost reduction and efficiency improvement by adhering to the general principle of steady and robust growth and maintaining a focus on service quality, risk management and operational excellence, in a bid to create a leading financial company and make new headway towards the goal of building CNPC into an integrated international energy conglomerate.

Chairman: Liu Yuezhen

The year 2018 marked a crucial year for the implementation of the 13th Five-Year Plan, and it was also a year of complicated situations at home and abroad. Under the strong leadership of CNPC and the board of directors of CPF, we actively responded to the unfavorable situations of the loan decline, the narrowing of interest margins, and restrictions on investment business. With continuous efforts to tap the potential, increase efficiency through innovation and improvement of the service, we stabilized the growth, made up for shortcomings, prevented risks, improved the quality, and ultimately achieved the annual target set at the beginning of this year.

I. Steady Growth of Business Profits

As of December 2018, the amount of average total assets was RMB 619.6 billion. Among them, the average balance of proprietary assets was RMB 480.1 billion, increased by RMB 44.9 billion and at a rate of 10.3% on a yearly basis; and the average balance of entrusted assets was RMB 135.9 billion, decreased by RMB 24.2 billion and at a rate of 14.8% on a yearly basis.

In 2018, on a yearly basis, CPF's full-year revenues reached RMB 17.94 billion, up RMB 2.7 billion or 17.7%; the pre-provision operating profit was RMB 9.38 billion, up 4%; and the book profit was RMB 9.18 billion, up 4.7%. Overall, the company achieved 104.6% of the performance target and 101.4% of the advanced goal for the year.

In 2018, CPF continued to support ongoing efforts to reduce cost and boost efficiency and helped member companies save RMB 3.66 billion by raising deposit interest rates, reducing loan interest rates, waiving settlement fees, offering preferential exchange rate and derating intermediary service charges, etc. In addition, CPF took full advantage of preferential tax policy overseas to reduce various taxes and fees up to RMB 700 million; further improved closed settlements services and accelerated capital turnover, saving RMB 15.8 billion of working capital for CNPC.

CPF maintained the industry-leading performance in terms of assets size, revenue and profit in 2018, with risk indicators superior to regulatory standards. The company was named as a winner of "Golden Dragon Award – Best Finance Company of the Year" by Financial News.

II. New Headway on All Fronts

First, the Master Treasury System – Phase II was widely deployed with enhanced functionalities. It was launched to support 109 companies in five batches including PetroChina and enterprises under its management. As at the end of December 2018, a total of 22.88 million settlement transactions, amounting to RMB 48 trillion, had been handled for 3,439 settlement accounts. CPF continuously improved cash pool management, while striving to enhance capital concentration, facilitating finance-industry collaboration and expanding the customer market. In addition, the company introduced an innovative cash management model for Kunlun Energy. Meanwhile, 13 overseas subsidiaries of CPECC and BGP were included in the offshore cash pool.

Second, significant progress was made in revenue generation and market operation. The company made a RMB 1.1 billion increase in revenue as a result of leveraging interest rate spread and interest rate/exchange rate volatility, operating funds systematically, identifying high-yield investment opportunities and actively expanding the scope of lending. The company, as a financing platform, raised RMB 811.2 billion through interbank borrowing, note issuance and repurchase arrangements, etc., which in turn supported CNPC's funding needs.

Third, lending services are growing steadily with new bright spots. The company made RMB 228.1 billion in loans available to key projects at home and abroad, including the Southwest Pipeline, Changning shale gas project, Abu Dhabi shallow-water project, Kazakhstan-China crude oil pipeline and BGP overseas projects etc. CPF set up a special account to handle commercial paper pool-related transfers and discounts and upgraded its systems to support establishing commercial papers in both paper and electronic forms. Discounting and re-discounting transactions of electronic bills in the commercial paper pool were successfully processed. The company continued to expand its scope of business, i.e. offering CPF-guaranteed acceptances, won permission by Guangzhou Customs to issue customs guarantees and deepened finance-industry coordination and inter-institutional collaboration, and set up the "green credit" committee in line with the national development strategy and distributed "green loans" worth of RMB 16.2 billion for the full year. Meanwhile, the full-year lending to the "Jing-Jin-Ji Metropolitan Region" and the projects along the "Belt and Road" route reached RMB 159.5 billion and US$ 1.77 billion respectively.

Fourth, portfolio restructuring boosted earnings significantly. Renminbi-denominated securities: The company pursued portfolio restructuring through redemption of low-yield money-market funds and trading of interbank deposits, achieving a RMB 57 million increase in earnings. Meanwhile, we seized trading windows in the bond market, and reactivated bond funds to achieve an annualized yield of 7.53%. High-rating credit bonds,

Billion

Chief Executive Officer's Report

619.6 billion in the amount of average total assets

General Manager: Lan Yunsheng

convertible/exchangeable bonds, structured funds and asset management products generated RMB 53 million in earnings. In addition, foreign exchange securities resulted in a US$ 37.49 million increase in earnings, indicating heightened efforts in investment research and periodic product management.

Fifth, liquidity and foreign exchange operations contributed remarkably to revenue generation. The company's repo operations totaled more than RMB 2.6 trillion and generated RMB 550 million in earnings from liquidity management through a flexible mix of interbank deposits, money–market funds and bond repos. The total amount of foreign exchange transactions handled throughout the year reached the all–time high of US$ 79.43 billion, covering marking–to–market, forward/optional forward foreign exchange trading and night trading, with foreign exchange trading conducted under the "Belt and Road" accounting for nearly 80%.

Sixth, local branches made significant improvements in service capabilities. The company's local branches upgraded their services in alignment with the Master Treasury System – Phase II and handled 17.97 million settlement transactions worth of RMB 10.6 trillion throughout the year. CPF Daqing's average deposit outstanding hit a record high thanks to a customer–oriented approach to settlement services; CPF Jilin maintained a focus on stabilizing market size and earning; CPF Shenyang penetrated into lower–tier market segments; CPF Xi'an launched demonstration projects and expanded the coverage of settlement services. CPFHK bolstered its integrated service capabilities as an offshore platform; CPF Singapore made new headway in lending and capital pool management; CPF Dubai functioned effectively as a tax planning platform.

III. Stably Enhance Management and Governance

First, heightened measures for risk management and regulatory compliance provided a solid foundation for business growth. Regulatory requirements and CNPC's standards were implemented across the organization with necessary changes made in the company's rules and procedures; the company's articles of association were revised to include provisions on CPC party building and legalization; the top management structure was further strengthened to take corporate governance to the next level; the board committees and their rules of procedure were clearly defined to enable a stronger role for the committees in charge of reviewing credit and investment decisions; the company's risk management framework was enhanced to support credit granting and risk control.

Second, the company's succession planning and employee training efforts proved effective. The company developed a strong management team and facilitated smooth transition in top management and executives of branch offices; managers and senior executives, for the first time, reviewed and appointed on an annual basis. Leveraging an improved employee training mechanism and a culture of integrity, entrepreneurship and excellence, the company trained 638 person–times throughout the year.

Third, supporting functions were optimized. IT–driven workflows keep business processes running smoothly; internal auditing programs play an effective role in monitoring of business activities; accounting, analytical and statistical review of financial statements and budget management are enhanced; targeted and proactive policies and market research efforts contribute to an effective decision–making process; remarkable progress is made in bolstering supporting functions such as document distribution, information reporting, supervision and corporate communication.

The progress and achievements of CPF in 2018 are a result of support from CNPC, PetroChina and the member companies, the leadership of the board of directors as well as the hard work and unity of our employees.

Looking ahead to 2019, CPF will be facing challenges and complexities at home and abroad and our operational and management tasks will remain arduous. Guided by CNPC and the Board of Directors, CPF will maintain a strong commitment to regulatory compliance and implement policies and guidelines for our business effectively. The company, as an internal bank and a treasury center, will continue to facilitate CNPC's core operations, provide premium services for clients and deliver strong returns to shareholders.

Corporate Governance and Risk Management Report

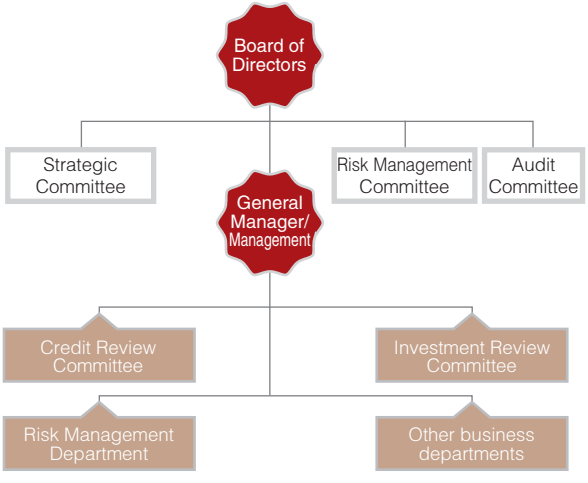
In 2018, our Company continued to strictly follow the regulatory requirements of the People's Bank of China (PBOC), China Banking and Insurance Regulatory Commission (CBIRC) and CBIRC Beijing Bureau, faithfully carried out the resolutions of the Board of Directors, and further improved our internal control and risk management capabilities by enhancing management and improving systems.

I. Corporate Governance

The Company established a corporate governance structure comprising the General Meeting of Shareholders as the supreme body, the Board of Directors as the key operational decision maker, the Board of Supervisors in charge of supervision and review, and the Senior Management to manage day–to–day business operation of the Company. The Company complied with the laws and administrative regulations strictly, implemented multiple corporate governance systems such as the Articles of Association, the Rules of Procedure for Shareholder Meetings, the Rules of Procedure for Director Meetings and the Rules of Procedures for Supervisor Meetings, and made sure the "three bodies" can exercise their powers based on the division of responsibilities and the "three–body system" is fully implemented. The members of the Board of Directors and the Board of Supervisors are all financial heads with strong professional background and rich working experience coming from relevant departments of both the headquarters and various member companies. During the reporting period, our directors and supervisors performed their duties diligently, gave full play of their own strengths, provided reasonable suggestions for improving the management level, and put efforts in supporting the Company's sustainable and robust growth.

In 2018, we convened 4 shareholder meetings in total (including 2 interim meetings) where 18 proposals were reviewed and passed. We convened 3 board meetings (including 1 interim meeting) where 23 proposals were reviewed and passed. We convened 4 supervisor meetings and reviewed 10 proposals.

The Company developed and maintained a multi–level structure for risk management (as illustrated below).



– Board of Directors: The Board of Directors is responsible for reviewing and approving strategies, policies and procedures for risk management, assessing the Company's overall risk tolerance, monitoring and evaluating the completeness and effectiveness of risk control, as well as overseeing the performance of the Senior Management in risk management.

– Special committees of the Board of Directors: The Strategic Committee has the responsibility to help the Board of Directors in determining the development plans for the Company, improve the decision–making process, increase the efficiency and quality of key investment decisions and improve the corporate governance structure; the Risk Management Committee is responsible for assisting the Board of Directors in improving risk management, formulating the risk management policies as well as monitoring and assessing the overall risk situation and risk management activities of the Company; the Audit Committee's role, as authorized by the Board of Directors is to help the Company make decisions scientifically and regularize the Company's operating behaviors.

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

– Credit Review Committee and Investment Review Committee: These teams are responsible for reviewing the company's reports on credit business and investment in accordance with the risk policies and overall planning determined by the Board of Directors, and then reporting their opinions to the General Manager or the authorized members of the Management.

– Risk Management Department: The department is responsible for the identification, analysis, monitoring, measurement, control and mitigation of market risk, credit risk, operation risk, liquidity risk, legal compliance risk and other risks. It is also responsible for reviewing credit and investment risks, ensuring legal compliance of legal documents such as business contracts and determining the classification of the risk assets.

– Business departments: The business departments are responsible for the identification, monitoring and control of risks in daily business activities.

In addition, the Company retained perennial legal counsel to provide legal opinions on new businesses and contracts, and help the Company manage legal risk.

II. Risk Management

(I) External Regulation

China Banking and Insurance Regulatory Commission (CBIRC) Beijing Bureau is the authority that oversees the Company's business activities. Our day-to-day operation and management is subject to their on-site and off-site regulation. Meanwhile, we are also under other government agency's supervision, such as the PBOC, the National Audit Office (CNAO), the State Administration of Foreign Exchange (SAFE) and China Securities Regulatory Commission (CSRC). For many years, regulatory bodies gave full support to the Company's growth. Our operating results and management performance has been well recognized. In 2018, the Company maintained good operating performance and managed risks effectively without experiencing any material risk events or receiving any regulatory or administrative penalties.

(II) Internal Risk Management

In 2018, we continued to further strengthen the top-level design for risk management and launched the Measures for Comprehensive Risk Management. Through the combination of legal compliance, risk management, internal control tests and internal audits, we improved our risk management significantly.

In 2018, the Company's Credit Review Committee examined 64 loan agreements (reports) in total, with a total amount of RMB 133.817 billion, and reviewed 17 note discount agreements with an amount of RMB 943 million; and provided 49 non-financing guarantees for a total amount of RMB 61.8027 million. The Company's Investment Review Committee reviewed 30 memos of different types of investments in total, with a cumulative amount of RMB 42.322 billion.

1. Credit risk management. The Company manages its credit risk primarily through credit control system, strict due diligence, enhanced post-loan/investment tracking and limiting the range of counterparties. We carried out the credit business within the credit limit strictly. By analyzing the risk exposure thoroughly, we flexibly used credit mitigation tools such as mortgages, pledges, guarantees and comfort letters to control credit risk exposure effectively while considering the customer's actual conditions. In making investments, the Company followed the investment policies approved by the Board of Directors strictly. We carefully reviewed the qualifications of the sponsors while focusing on their insolvency and the stability of their operation. At the same time, we adopted the white list control mechanism to prudently select counterparties with higher credit ratings and limit the range of counterparties in order to effectively control the credit risk of investments. There were no credit risk event or loss occurred this year.

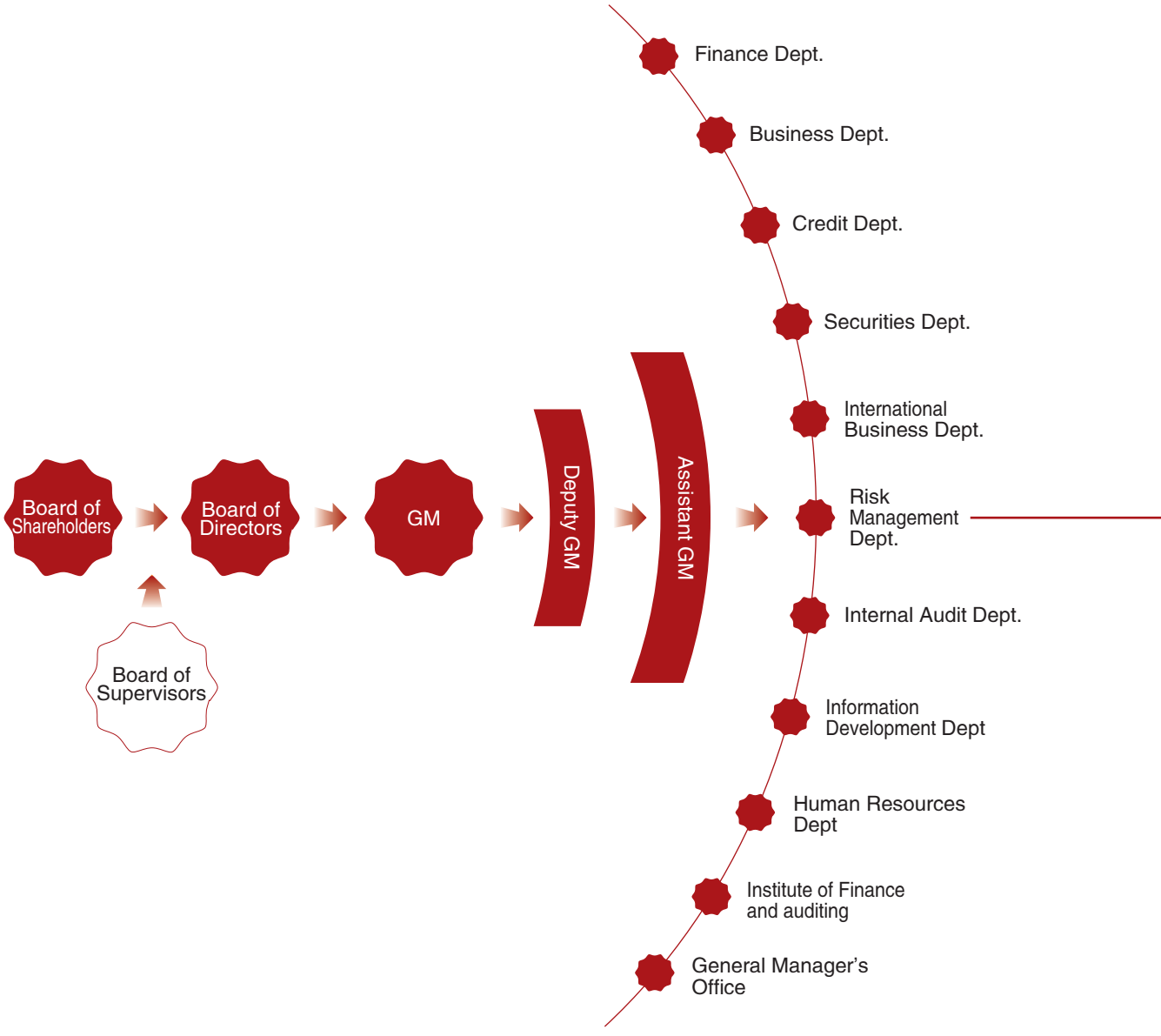
2. Market risk management. The Company manages market risk primarily through controlling the investment targets, optimizing the design of term structure of interest rate, implementing the position limit policy strictly, and strengthening risk monitoring. The main investment targets of the Company are national debts, financial debts and corporate bonds with relatively high credit ratings. In 2018, the Company increased investment in renewable bonds, bond funds and convertible bonds in response to the changing market conditions. Our investment portfolio maintained reasonable duration and manageable interest rate risk. Our proprietary foreign exchange transactions were for hedging purposes, we did not participate in any speculative trading. We implemented the overnight exposure control mechanism effectively and improved the hedging mechanism to make the foreign exchange risk manageable. Meanwhile, the Company increased effort in market research and conducted early identification of various market risk factors. We controlled risk exposure and took risk management measures when necessary to maintain the position and risk exposure at a stable level. No market risk event or loss occurred this year.

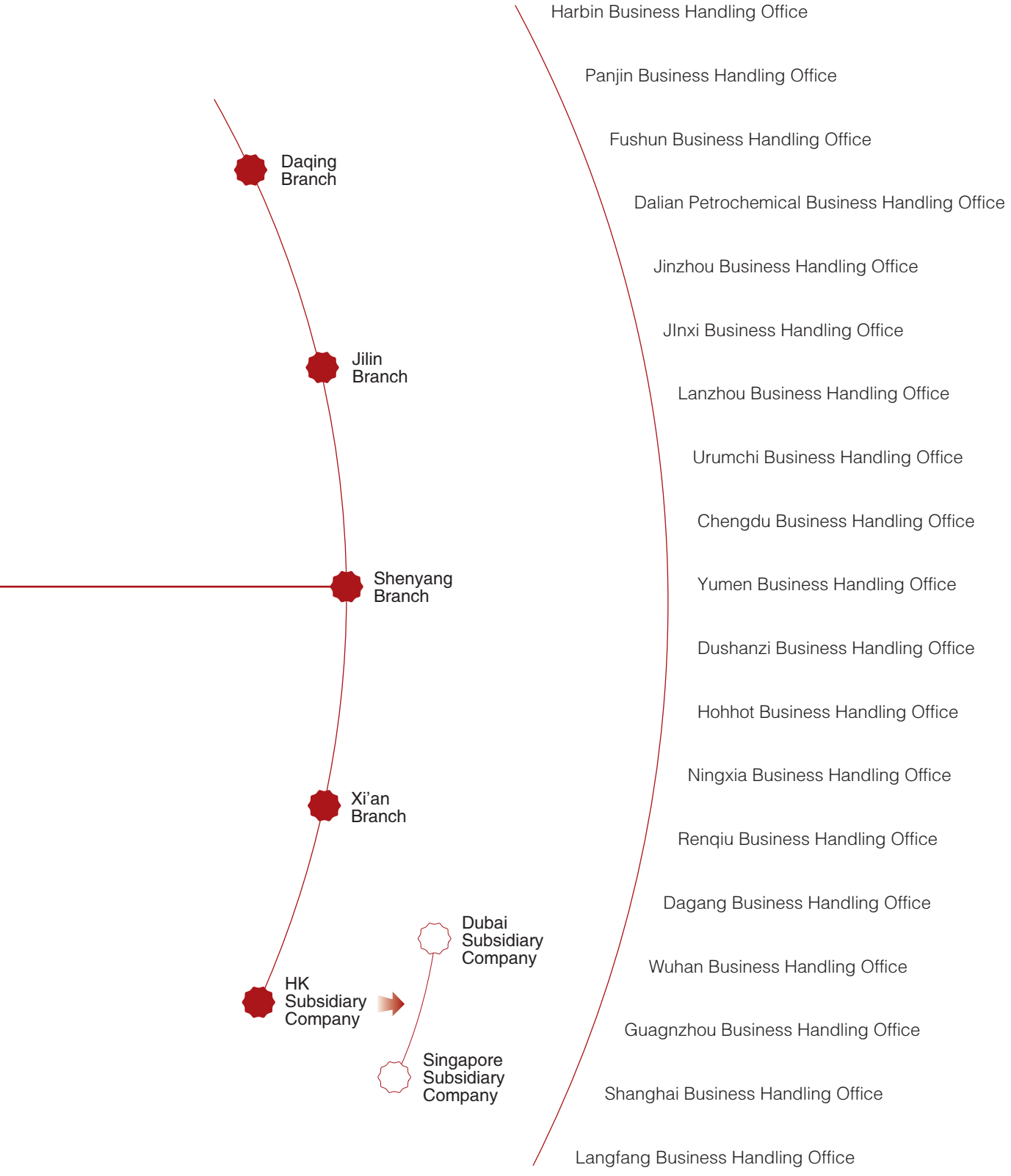
3. Operational risk management. The Company manages operational risk primarily by building stronger system and procedure and management authorization. In 2018, the Company revised and completed 38 systems in total, including the Articles of Association, 6 rules of the three bodies and the special committee and 31 business-related systems, in order to further define the division of work responsibilities and standardize business operation and authorization process. In addition, we continued to conduct annual internal control self-tests to check system implementation and procedures, and made the Company's management more systematic and standardized on various business areas. No operational risk event or loss occurred this year.

4. Liquidity risk management. In 2018, we continued to strengthen liquidity risk management. First, we formulated three regulations including the Management Measures on Liquidity Risk, the Implementation Rules on Management of Liquidity Risk Limits and the Emergency Plan for Liquidity Risk. We also organized emergency drills through simulations on Level-II liquidity risk events with consideration of the real market condition and the Company's situation. These drills proved our ability in meeting the Company's payment and settlement needs, relieving liquidity pressures and improving liquidity management. Second, we continued to strengthen financial planning, improved operations such as national debt repurchases and inter-bank lending, and increased credit line with commercial banks to satisfy our liquidity needs effectively. We improved profitability of precipitation funds while ensuring the needs of liquidity and business operation could be met. No liquidity risk event occurred this year.

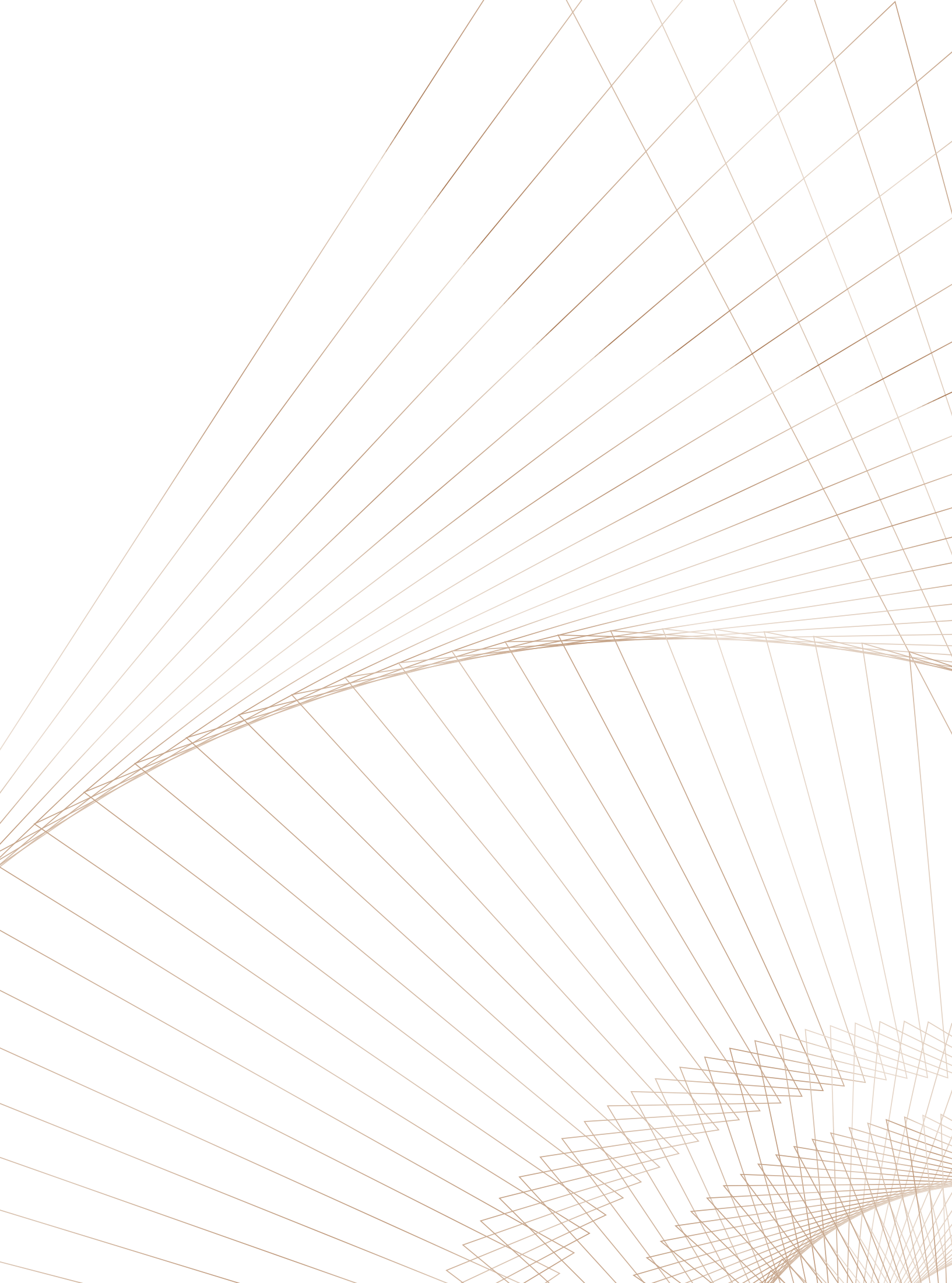
In 2019, we will follow the regulatory requirements strictly and strengthen the construction of the "three-body" system, enhance the duty performance of the directors, deepen the monitoring and inspection function of the Board of Supervisors, enhance the compliance of the decision-making process and have internal control and risk management as the priority of our annual work. Our internal audit will 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 a risk aware environment and heighten risk management measures to improve risk prevention throughout the whole process of risk management.

Organization Chart




Daqing Branch
Jilin Branch
Shenyang Branch
Xi'an Branch
HK Subsidiary Company
Dubai Subsidiary Company
Singapore Subsidiary Company
Harbin Business Handling Office
Panjin Business Handling Office
Fushun Business Handling Office
Dalian Petrochemical Business Handling Office
Jinzhou Business Handling Office
JInxi Business Handling Office
Lanzhou Business Handling Office
Urumchi Business Handling Office
Chengdu Business Handling Office
Yumen Business Handling Office
Dushanzi Business Handling Office
Hohhot Business Handling Office
Ningxia Business Handling Office
Renqiu Business Handling Office
Dagang Business Handling Office
Wuhan Business Handling Office
Guagnzhou Business Handling Office
Shanghai Business Handling Office
Langfang Business Handling Office

ANALYSIS OF FINANCIAL AND OPERATING RESULTS OF 2018



Financial Overview (Consolidated)

Unit: RMB 10 thousand

Item	2014	2015	2016	2017	2018
Profit before tax	665,503	685,468	891,698	876,426	917,652
Profit after tax	543,206	582,028	752,402	728,647	758,238
Interest income	1,455,157	1,389,899	1,373,304	1,433,413	1,682,319
Return on investment	76,043	190,051	58,368	31,592	35,646
Interest expense	642,045	645,069	673,273	671,445	826,007
Operating and administrative expenses	23,883	23,879	23,568	23,556	23,192
Domestic tax	233,652	205,066	190,445	171,282	209,510
Total assets	64,046,706	64,006,044	61,839,144	61,523,329	59,440,238
On-balance sheet total assets	39,505,603	39,137,791	41,942,296	47,887,026	45,984,354
Loans and entrusted loans	50,417,475	50,662,313	44,142,992	39,670,914	36,574,188
Total liabilities	60,174,198	59,648,764	56,188,912	55,540,428	52,815,685
Deposits and entrusted funds	47,356,093	47,172,707	43,458,059	43,187,333	40,525,631
Owner's equity	3,872,508	4,357,280	5,650,232	5,982,901	6,624,553

Analysis of Financial and Operating Results

In 2018, under the strong leadership of CNPC, the Party Committee and the Board of Directors of the Company, we continued to respond to the complicated situation at home and abroad, actively explored the credit market, optimized our asset structure in an prudent and orderly way, strengthened liquidity management and fund operation, took a series of initiatives to reduce costs, generate revenues and improve business and service competencies and fulfilled our expected operating objectives. Meanwhile, the Company has maintained its leading position in the industry in terms of major operating indicators.

In 2018, the Company achieved total profit of RMB9.177 billion, representing an increase of RMB412 million or 4.7% over the previous year. The pre-provision operating profit was RMB9.379 billion, representing an increase of RMB1.15 billion or 13.97% over the previous year. Total assets at the end of 2018 reached RMB594.402 billion (including on-balance sheet assets of RMB459.844 billion and off-balance sheet assets of RMB134.559 billion), representing a decrease of RMB20.831 billion or 3.39% from the previous year. The Company has further enhanced its risk prevention capabilities and achieved robust operation and healthy growth by aligning security, liquidity with profitability. In 2018, our return on capital was 12.03%, the liquidity ratio was 45%,capital adequacy ratio was 19.16%, non-performance loan ratio was zero and adequacy ratio of allowance for losses on assets was 465.96%.

Assets

At the end of 2018, the Company had total assets of RMB594.402 billion, representing a decrease of RMB20.831 billion or 3.39% over the previous year, including on–balance sheet total assets of RMB459.844 billion, representing a decrease of RMB19.027 billion or 3.97% over the previous year. In which:

Balance with the Central Bank

Unit: RMB 10 thousand

The balance with the central bank decreased by RMB2.65 billion or 14.52% over the previous year to RMB15.604 billion. This was mainly due to the significant decrease of the reserve for foreign exchange risk deposited in the central bank.

Item	2017.12.31	2018.12.31
Balance with the Central Bank	1,825,429	1,560,410
Including: RMB	1,505,596	1,437,702
Foreign currency conversion	319,834	122,708
Total	1,825,429	1,560,410

Amounts Due from Other Financial Institutions

Unit: RMB 10 thousand

Amounts due from other financial institutions increased by RMB20.571 billion or 17.85% over the previous year to RMB135.838 billion. This was mainly due to the increase in time deposits with higher return on foreign exchange.

Item	2017.12.31	2018.12.31
Amounts due from other financial institutions	11,526,728	13,583,848
Including: RMB	2,572,592	1,374,789
Foreign currency conversion	8,954,135	12,209,059
Total	11,526,727	13,583,848

Proprietary Loans and Entrusted Loans

Unit: RMB 10 thousand

The Company's proprietary loans and entrusted loans decreased by RMB30.967 billion or 7.81% over the previous year to RMB365.742 billion. This was mainly due to the significant drop in the scale of the proprietary loans at the end of the year.

Item	2017.12.31	2018.12.31
I. Proprietary loans	26,034,611	23,118,304
1. Fixed asset loans	4,403,429	3,942,505
2. Current asset loans	21,364,872	18,911,829
3. Discounted assets	266,309	263,971
II. Entrusted loans	13,636,303	13,455,884
Total	39,670,914	36,574,188

The Company's investment in securities was RMB85.535 billion, representing an increase of RMB7.132 billion or 9.1% over the previous year. This was mainly because the Company had adjusted its asset structure and moderately increased investment in securities.

Investment in Securities

Unit: RMB 10 thousand

Item	2017.12.31	2018.12.31
Proprietary investment in securities	7,840,271	8,553,476
Including: 1. Held–for–trading financial assets	320,541	870,955
2. Available–for–sale financial assets	4,974,730	6,292,521
3. Held–to–maturity investments	2,545,000	1,390,000
Total	7,840,271	8,553,476

The balance of allowance for impairment losses on assets increased by RMB282 million or 2.06% from the previous year to RMB13.95 billion. The increase was mainly due to the increased allowance for impairment losses on assets for the year.

Allowance for Impairment Losses on Assets

Unit: RMB 10 thousand

Item	2017.12.31	2018.12.31
I. Allowance for bad debts	73	72
II. Allowance for losses on loans	1,262,989	1,291,901
III. Impairment of available–for–sale financial assets	14,696	15,409
IV. Impairment of held–to–maturity investment	89,075	87,650
Total	1,366,833	1,395,032

Liabilities

As at the end of 2018, CPF had reported total liabilities of RMB528.157 billion, representing a decrease of RMB27.247 billion or 4.91% from the previous year and including on–balance sheet liabilities of RMB393.598 billion, representing a decrease of RMB25.443 or 6.07% from the previous year. In which:

Deposits from customers decreased by RMB24.906 billion or 8.43% from the previous year to RMB270.697 billion, mainly due to the significant decrease of the deposits from CNPC and PetroChina at the end of the year.

Deposits from Customers

Unit: RMB 10 thousand

Item	2017.12.31	2018.12.31
Demand deposits	15,987,457	13,334,826
Time deposits	13,572,848	13,734,922
Total	29,560,305	27,069,748

The Company's off–balance sheet liabilities decreased by RMB1.804 billion or 1.32% from the previous year to RMB134.559 billion. This was mainly due to the decrease in entrusted loans from CNPC.

Off–balance Sheet Liabilities

Unit: RMB 10 thousand

Item	2017.12.31	2018.12.31
Entrusted loans	13,636,303	13,455,884
Total	13,636,303	13,455,884

Placements from other financial institutions decreased by RMB981 million or 1.41% from the previous year to RMB68.5 billion. This was mainly due to the decrease in placements from other financial institutions as a result of the adjustment to the asset/liability structure by CNPC Finance (HK) Limited.

Placements from Other Financial Institutions

Unit: RMB 10 thousand

Item	2017.12.31	2018.12.31
Placements from other financial institutions	6,948,082	6,849,996
Total	6,948,082	6,849,996

The Company's payable bonds increased by RMB5.885 billion or 13.82% from the previous year to RMB48.462 billion. This was mainly due to the increased issuance of the commercial bills by CNPC Finance (HK) Limited.

Bonds Payable

Unit: RMB 10 thousand

Item	2017.12.31	2018.12.31
Bonds payable	4,257,666	4,846,213
Total	4,257,666	4,846,213

Owner's equity

At the end of 2018, the Company's owner's equity increased by RMB6.417 billion or 10.72% from the beginning of the year to RMB66.246 billion. The increase was mainly due to the RMB7.582 billion from the net profit, RMB1.907 billion of dividends paid to shareholders ,RMB742 million increase from converted difference in foreign currency statements.

Operating Income

In 2018, the Company's total operating income reached RMB17.938 billion, representing an increase of RMB2.701 billion or 17.73% from the previous year, which was mainly due to large increase in interest income and return on investments. In which:

Interest income increased by RMB2.489 billion or 17.36% from the previous year to RMB16.823 billion. This was mainly due to the significant increase in interest income from all kinds of loans, amounts due from other financial institutions and securities repurchases.

Interest Income

Unit: RMB 10 thousand

Item	2017	2018
I. Loans	960,508	1,016,273
II. Investments in securities	253,992	257,480
III. Amounts due from other financial institutions	174,455	327,502
IV. Balance with the central bank	21,636	26,060
V. Securities repurchase	22,336	55,004
VI. Other incomes	487	–
Total	1,433,413	1,682,319

Fee and commission income increased by RMB27 million or 4.03% from the previous year to RMB690 million. The increase was mainly due to the significant increase in fees from foreign exchange trading for clients.

Fee and Commission Income

Unit: RMB 10 thousand

Item	2017	2018
Entrusted loans	19,661	17,304
Foreign exchange trading for clients	32,294	50,816
Others	14,394	905
Total	66,349	69,026

Return on investments increased by RMB41 million or 12.83% from the previous year to RMB356 million. This was mainly due to the increase in fund investment return and decrease in bond investment return.

Investment Return

Unit: RMB 10 thousand

Item	2017	2018
Return on stock investment	112	179
Return on fund investment	26,310	34,278
Return on bond investment	5,170	971
Forward earnings	0	217
Total	31,592	35,646

Exchange gains/losses increased by RMB73 million or 284.99% from the previous year to RMB48 million. The increase was mainly due to appreciation of the RMB.

Exchange Gains/Losses

Unit: RMB 10 thousand

Item	2017	2018
Exchange gains/losses	–2,577	4,767
Total	–2,577	4,767

Operating expenses

In 2018, the Company's total operating expenses reached RMB8.761 billion which represented an increase of RMB2.289 billion or 35.36% from the previous year. This was mainly due to the year–on–year increase in interest expense and allowance for impairment losses on assets. In which:

Interest expense increased by RMB1.546 billion or 23.02% from the previous year to RMB8.26 billion. The increase was mainly due to: interest expense increased by RMB887 million due to the significant year–on–year increase in deposits from customers; a year–on–year increase of RMB838 million in borrowing funds, bonds payable and commercial bill because the Federal Reserve raised interest rates and .the forex funding cost increased.

Interest Expense

Unit: RMB 10 thousand

Item	2017	2018
Deposits from customers	399,443	488,146
Financial assets sold for repurchase	5,038	857
Placements from other financial institutions	115,743	178,933
Amounts due to other financial institutions	12,829	–163
Bonds payable	137,472	158,115
Others	921	120
Total	671,445	826,007

Impairment losses on assets increased by RMB737 million or 137.83% from the previous year to RMB202 million, which was mainly due to the RMB202 million of allowance for impairment losses on assets for this year and allowance for impairment losses on assets of RMB535 million released at the previous year.

Impairment Losses on Assets

Unit: RMB 10 thousand

Item	2017	2018
Impairment losses on assets	–53,499	20,240
Total	–53,499	20,240

Other expenses were RMB299 million, which was close to that of the previous year.

Other Operating Expenses

Unit: RMB 10 thousand

Item	2017	2018
Fees and commissions	980	880
Sales tax and charges	5,555	5,813
Operating and administrative expenses	23,556	23,192
Other expenses	–773	7
Total	29,319	29,893

Capital adequacy ratio

Capital Adequacy Ratio

Unit: RMB 10 thousand, %

Item	2017.12.31	2018.12.31
Net capital	6,394,720	6,989,844
Risk assets	39,376,060	36,489,489
Capital adequacy ratio (%)	16.24	19.16

AUDITORS' REPORT AND NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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立信会计师事务所管理有限公司成员所
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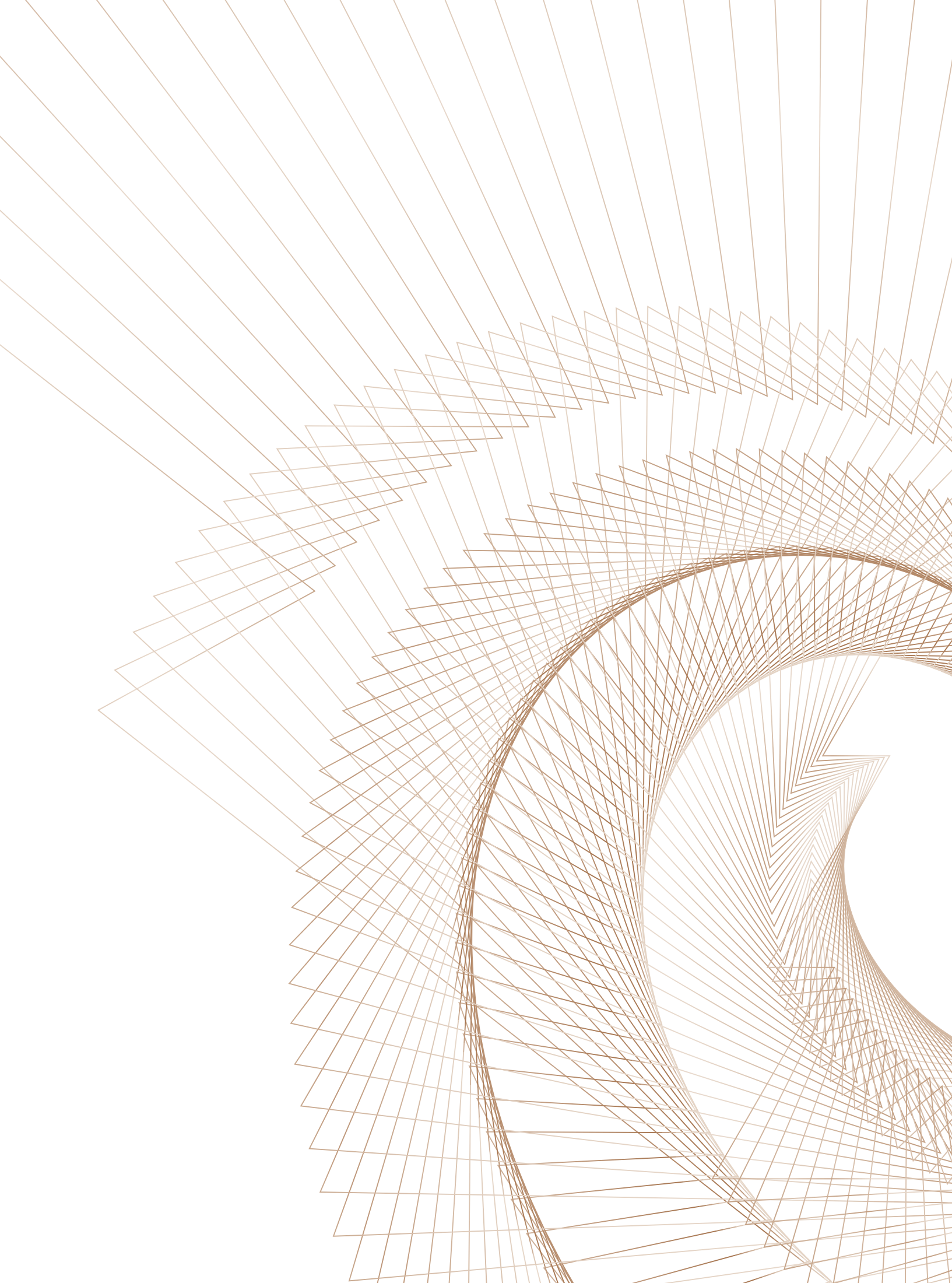

Auditors' Report

PCPAR [2019] No. ZK20152

To all shareholders of China Petroleum Finance Co., Ltd.,

I. Opinion

We have audited the accompanying financial statements of China Petroleum Finance Co., Ltd. (hereinafter referred to as "the Company"), which comprise the consolidated balance sheet and the parent company's balance sheet as at December 31, 2018, the consolidated income statement and the parent company's income statement, the consolidated statement of cash flows and the parent company's statement of cash flows, the consolidated statement of changes in owners' equity and the parent company's statement of changes in owners' equity for the year then ended and the notes to the financial statements.

In our opinion, the financial statements attached are prepared, in all material respects, in accordance with the Accounting Standards for Business Enterprises, and present fairly the consolidated financial positions and the parent company's financial positions as at December 31, 2018 and the consolidated operating results and cash flows and the parent company's operating results and cash flows for the year then ended.

II. Basis for Opinion

We conducted our audit in accordance with the Accounting Standards for Certified Public Accountants in China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. According to the Code of Ethics for Chinese CPA, We are independent of the Company in accordance with the Code of Ethics for Chinese CPA and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Company's management (hereinafter referred to as the "Management") is responsible for preparing the financial statements in accordance with the requirements of Accounting Standards for Business Enterprises to achieve a fair presentation, and for designing, implementing and maintaining internal control that is necessary to ensure that the financial statements are free from material misstatements, whether due to frauds or errors.

In preparing the financial statements, the Management is responsible for assessing the Company's going–concern ability, disclosing the matters related to going concern (if applicable) and using the going concern basis of accounting unless the Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

IV. Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

During the process of audit in accordance with audit standards, we exercise professional judgment and maintain professional scepticism. Meanwhile, we also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Understand the internal control relevant to the audit 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.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(4) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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BDO CHINA Shu Lun Pan
Certified Public Accountants LLP
(Special General Partnership)

Certified Public Accountant of China:
Zirong Han

Certified Public Accountant of China:
Ying Di

Shanghai, China

March 25, 2019

Consolidated Balance Sheet As at December 31, 2018

Prepared by: China Petroleum Finance Co., Ltd. Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Assets:	–	–
Cash and deposits in central bank	15,604,103,437.30	18,254,292,254.25
Deposits with banks and other financial institutions	135,838,479,183.71	115,267,274,954.02
Precious metals	–	–
Loans to banks and other financial institutions	–	–
Financial assets held for trading	8,709,546,374.43	3,205,414,482.02
Derivative financial assets	232,162,770.35	453,013,422.95
Financial assets purchased under resale agreements	–	15,310,000,000.00
Interest receivable	2,611,589,456.57	1,840,151,636.94
Disbursement of loans and advances	218,264,026,569.11	247,716,221,287.51
Available–for–sale financial assets	62,771,123,710.18	49,600,338,049.61
Held–to–maturity investments	13,023,500,000.00	24,559,250,000.00
Long–term equity investments	–	–
Investment properties	–	–
Fixed assets	190,755,238.51	198,965,632.54
Intangible assets	333,398.28	730,019.47
Deferred income tax assets	2,546,151,827.16	2,411,041,864.69
Other assets	51,772,762.91	53,566,945.82
Total assets	459,843,544,728.51	478,870,260,549.82
Liabilities:	–	–
Borrowings from central bank	602,367,420.99	–
Deposits in banks and other financial institutions	529,390,552.42	4,980,573,034.48
Loans from banks and other financial institutions	68,499,955,249.56	69,480,822,650.30
Financial liabilities held for trading	–	–
Derivative financial liabilities	362,531,063.02	749,998,651.56
Financial assets sold under repurchase agreements	220,022,172.82	–
Absorption of deposits	270,697,471,715.58	295,603,042,497.56
Employee compensation payable	38,267,594.36	37,520,875.96
Taxes and surcharges payable	663,158,144.62	304,492,369.23
Interest payable	3,422,584,786.43	5,178,091,427.05
Estimated liabilities	–	–
Bonds payable	48,462,134,034.03	42,576,658,672.46
Long–term employee compensation payable	–	–
Deferred income tax liabilities	63,233,317.07	10,887,306.40
Other liabilities	36,901,741.74	119,158,901.64
Total liabilities	393,598,017,792.64	419,041,246,386.64
Owners' equity:	–	–
Paid–in capital	8,331,250,000.00	8,331,250,000.00
Other equity instruments	–	–
Including: preferred shares	–	–
Perpetual debts	–	–
Capital reserves	24,432,566,160.00	24,432,566,160.00
Less: treasury stock	–	–
Other comprehensive income	554,524,375.52	–186,994,061.24
Including: foreign currency translation differences	1,056,844,401.73	82,134,938.18
Surplus reserves	14,507,587,842.47	12,676,193,404.04
General risk reserves	6,823,789,798.96	7,041,716,146.24
Undistributed profit	11,595,808,758.92	7,534,282,514.14
Equity attributable to owners of the parent company	66,245,526,935.87	59,829,014,163.18
Minority equity	–	–
Total owners' equity	66,245,526,935.87	59,829,014,163.18
Total liabilities and owners' equity	459,843,544,728.51	478,870,260,549.82

Consolidated Income Statement Year of 2018

Prepared by: China Petroleum Finance Co., Ltd. Unit: RMB

Item	Amount in 2018	Amount in 2017
I. Operating income	9,668,900,181.72	8,520,288,677.29
Net interest income	8,563,125,154.09	7,619,671,007.48
Interest income	16,823,193,449.75	14,334,125,565.32
Interest expenses	8,260,068,295.66	6,714,454,557.84
Net income from handling charges and commissions	681,457,299.54	653,694,777.76
Income from handling charges and commissions	690,255,322.02	663,491,758.48
Handling charges and commissions expenses	8,798,022.48	9,796,980.72
Investment income ("–" for losses)	356,460,966.20	315,923,996.67
Including: income from investment in associates and joint ventures	–	–
Gains from changes in fair value ("–" for losses)	19,969,003.71	–43,546,399.83
Gains from foreign exchange ("–" for losses)	47,672,472.26	–25,769,989.99
Gains from asset disposal	–	4,209.13
Other business income	75,471.70	–
Other income	139,814.22	311,076.07
II. Operating expenses	492,487,655.27	–243,869,140.72
Taxes and surcharges	58,133,877.49	55,553,069.68
Operating and administrative expenses	231,922,896.89	235,564,259.40
Losses from asset impairment	202,402,799.58	–534,992,015.21
Costs of other business	28,081.31	5,545.41
III. Operating profit ("–" for loss)	9,176,412,526.45	8,764,157,818.01
Plus: non–operating income	153,959.13	122,970.35
Less: non–operating expenses	44,647.25	20,993.27
IV. Total profit ("–" for total loss)	9,176,521,838.33	8,764,259,795.09
Less: income tax expenses	1,594,141,953.60	1,477,785,872.68
V. Net profit ("–" for net loss)	7,582,379,884.73	7,286,473,922.41
Net profit attributable to owners of the parent company	7,582,379,884.73	7,286,473,922.41
Minority interest income	–	–
Continous operating net profit	7,582,379,884.73	7,286,473,922.41

CHINA PETROLEUM FINANCE CO., LTD. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. Company profile

1.1 History, registered address, organizational form and head office address of the Company

Established upon the approval

China Petroleum Finance Co., Ltd. (hereinafter referred to as the "Company"), was established upon the approval of the People's Bank of China with the document YF [1995] No. 389.

Commenced its business

The Company obtained the Business License for Enterprise Legal Person [registration No. 100000000018557] issued by the State Administration for Industry & Commerce of the People's Republic of China on December 8, 1995 and commenced its business on December 18, 1995.

Registered capital was changed

The Company holds a Financial License of the People's Republic of China [license No. L0003H111000001] issued by the China Banking Regulatory Commission (the "CBRC"). On August 31, 2016, the Company's registered capital was changed to RMB 8.33125 billion, and the original Business License was correspondingly renewed as a new Business License with the unified social credit code No. 91110000100018558M.

The registered capital of the Company is RMB 8.33125 billion. The Company is a limited liability company co-founded by China National Petroleum Corporation (hereinafter referred to as "CNPC") and PetroChina Company Limited (hereinafter referred to as the "PCL") and CNPC Capital Company Limited (hereinafter referred to as "CNPC Capital"). The Company's registered address is Floors 8-12, Block A, China Petroleum Building, No. 9, Dongzhimen North Street, Dongcheng District, Beijing. The Company's legal representative is Liu Yuezhen.

In December 1995, the Company was originally co-founded by China National Petroleum Head Company and other 19 oil and gas field enterprises with a registered capital of RMB 800 million.

In June 1996, China National Petroleum Head Company changed the registered capital of the Company from RMB 395 million to RMB 144.812 million and USD 30 million upon the approval of the State Administration of Foreign Exchange.

1995 1996 1997 1999 2003

In April 1997, according to the resolution of the Second Shareholders' Meeting, the Company increased its registered capital by RMB 800 million, which consists of RMB 395 million and USD 50 million (equivalent to RMB 405 million at the exchange rate of 1 : 8.2924). The capital reserve climbed by RMB 72 million. The paid–in capital of the Company was increased to RMB 1.6 billion (including USD 80 million). The number of shareholders increased to 24.

In June 1999, according to the resolution of the 4th and 5th Shareholders' Meetings, five former shareholders including Shengli Petroleum Administrative Bureau transferred their shares of the Company to three new shareholders such as Jinlin Chemical Group Corporation. 11 new shareholders acquired shares of the Company. The paid–in capital and the capital reserve of the Company respectively increased by RMB 200 million and RMB 31.2169 million. The paid–in capital of the Company increased to RMB 1.8 billion (including USD 80 million). The number of the Company's shareholders increased to 33.

According to the resolution of the 11th Shareholders' Meeting held in June 2003, the Company increased its registered capital by RMB 1.2 billion (including USD 40 million of capital of foreign currency) and increased its capital reserve by RMB 55,200. As at July 1, 2003, the Company's paid–in capital increased to RMB 3 billion, including USD 120 million of capital of foreign currency. The number of shareholders increased to 35.

In April 2007, CNPC Lanzhou Refining and Chemical Complex, a former shareholder of the Company, merged with CNPC Lanzhou Chemical Industry Company to form a new entity – China Petroleum Lanzhou Petrochemical Corporation. The aggregate capital invested by China Petroleum Lanzhou Petrochemical Corporation in the Company was RMB 60 million. The number of the Company's shareholders changed to 34. The shareholding ratios were: 38.13% held by the controlling shareholder of CNPC, 7.50% held by PCL and 54.38% held by other 32 shareholders.

According to the Circular of Share Transfer of China Petroleum Finance Co., Ltd. (ZYZ [2009] No. 341) issued by CNPC on August 1, 2009, total 32 shareholders including Daqing Administrative Bureau and other associates under CNPC, were required to transfer all their shares of the Company to CNPC without consideration. The share transfer date was June 30, 2009. After such transfer, the number of shareholders of the Company changed from 34 to 2. The shareholding ratios were 92.5% held by CNPC and 7.5% by PCL then.

According to the CBRC's Reply on the Increase in the Registered Capital and Equity Structure' Change of China Petroleum Finance Co., Ltd. (YJF [2010] No. 278), the Company was authorized to increase its registered capital to RMB 5.441 billion. The investment amounts and shareholding ratios after the capital increase were as follows: CNPC invested RMB 2.775 billion, accounting for 51%, and PCL invested RMB 2.666 billion, accounting for 49%. The Company has received the additional capital injection on June 25, 2010.

According to the Reply on the Change of Registered Capital and Equity Structure of China Petroleum Finance Co., Ltd. (JYJF [2016] No. 458) issued by Beijing Regulatory Bureau of the CBRC, the Company was authorized to increase its registered capital to RMB 8.33125 billion from RMB 5.441 billion with the increased capital solely contributed by CNPC. The Company has received the additional capital injection on August 18, 2016.

According to the Circular on Transferring the Share of China Petroleum Finance Co., Ltd. without Compensation (ZYZ [2016] No. 203) issued by CNPC, 28% of shares of the Company held by CNPC was decided to be transferred to Beijing Jinyaguang Real Estate Business Management Co., Ltd. (later renamed as "CNPC Capital Company Limited"). The share transfer date was December 31, 2015. According to the Reply on the Change of Shares of China Petroleum Finance Co., Ltd. (JYJF [2016] No. 459) issued by Beijing Regulatory Bureau of the CBRC, the adjusted equity structure of the Company (including RMB 3.3325 billion contributed by CNPC with the contribution proportion of 40%; RMB 2.666 billion contributed by PetroChina Company Limited with contribution proportion of 32%; RMB 2.33275 billion contributed by CNPC Capital Company Limited with contribution proportion of 28%) was replied.

2007 2009 2010 2016 2018

1.2 Industry, business scope, business nature, primary business and business segments of the Company

The Company operates its business in the industry of finance. Business scope of the Company: providing accounting, financing, credit verifying services and related advisory and agency services for member companies; assisting the collection and payment of transaction process for member companies; conducting authorized insurance agency business; providing guarantee for member companies; providing entrusted loan and entrusted investment service among member companies; providing notes acceptance and discount for member companies; providing internal transfer settlement and corresponding settlement or liquidation scheme design among member companies; accepting deposits of member companies; providing loan and financial leasing services for member companies; undertaking inter-bank borrowings; issuing corporate bonds upon authorization; underwriting corporate bonds of member companies; investing in the equity of financial institutions; investing in value securities; and providing consumer credit, buyers' credit and financial leasing services for the products of member companies. (The Company may independently choose business items and conduct business activities according to law; any item that need to be approved according to law shall be carried out after acquiring the approval of related administration; any operating activity of the item banned and restricted by Beijing industrial policy may not be conducted.)

1.3 Name of the largest shareholder and group headquarters of the Company

The largest shareholder and the group headquarters of the Company is CNPC.

1.4 Operation term

The operation term of the Company is from December 8, 1995 and has no prescribed time limit.

2. Basis of preparation for the financial statements

The Company prepares its financial statements on the going-concern basis.

The Company prepares the financial statements according to the transactions and events actually occurred and based on the recognition and measurement in accordance with the Accounting Standards for Business Enterprises – Basic Standard and specific accounting standards promulgated by the Ministry of Finance and the Accounting Standard for Business Enterprises – Application Guidance and the Interpretations for the Accounting Standards for Business Enterprises issued thereafter and other relevant provisions (hereinafter collectively referred to as "Accounting Standards for Business Enterprises").

CNPC Finance (HK) Limited (hereinafter referred to as "Hong Kong Subsidiary"), a subsidiary of the Company, has adopted Hong Kong Accounting Standard. When the Company consolidates the financial statements, it shall convert items of Hong Kong Subsidiary in accordance with the Accounting Standards for Business Enterprises and make conversation and adjustment according to the principles stated in Note 4.7.2.

3. Statement on compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company meet the requirements of the Accounting Standards for Business Enterprises, and truly and completely reflect the Company's (consolidated) financial position as at December 31, 2018, and its (consolidated) operating results, (consolidated) cash flows and other related information for the year then ended.

4. Notes to principal accounting policies and accounting estimates

4.1 Accounting period

The accounting period of the Company is from January 1 to December 31 in calendar year.

4.2 Functional currency

The Company adopts RMB as its functional currency. Hong Kong Subsidiary of the Company adopts USD as its functional currency.

The financial statements of Hong Kong Subsidiary have been translated into the financial statements in RMB when the Company consolidates the financial statements.

4.3 Basis of accounting and measurement bases

The financial statements have been prepared on the accrual basis and follow the principle of historical cost convention unless otherwise stated.

4.4 Business combination

The term "business combinations" refers to a transaction or event bringing together two or more separate enterprises into one reporting entity. The term "acquisition date" refers to the date when the combiner or purchaser actually obtains the right of control over the net asset or production and management decision–making of the combinee or acquiree.

Business combinations are classified into the business combinations under the same control and the business combinations not under the same control. See the Note 4.10.1 for the details on the method for the determination of combination costs.

4.5 Measures for preparation of the consolidated financial statements

The scope of consolidation of consolidated financial statements shall be determined on the basis of control, and all the subsidiaries of the Company (including separate subjects under the control of the Company) shall be included in the scope of the consolidated financial statements.

The Company prepares the consolidated financial statements on the basis of its and its subsidiaries' financial statements and according to other relevant information. When preparing the consolidated financial statements, the same accounting policies and accounting periods shall be adopted by the Company and its subsidiaries (See Note 7.2), and the impact of significant transactions among companies on the consolidated financial statements and the current balance shall be written off. Owners' equity, net current profit or loss and current comprehensive income attributable to minority shareholders of the subsidiaries are separately listed under the owners' equity in the consolidated balance sheet and under the net profit and the total comprehensive income in the consolidated income statement.

During the reporting period, if the Company acquires a subsidiary or business from business combination, the incomes, expenses and profits from the combination date or acquisition date of the subsidiary or business to the end of the reporting period shall be included in the consolidated income statement, and the cash flows of the acquired subsidiary or business shall be included in the consolidated statement of cash flows.

During the reporting period, if the Company disposes a subsidiary or business, the incomes, expenses and profits from the beginning of the period to the date of disposal of the subsidiary or business shall be included in the consolidated income statements, and the cash flows of the disposed subsidiary or business shall be included in the consolidated statement of cash flows.

The share premium in the capital reserves under the consolidated statement of financial position will be adjusted at the difference between the long–term equity investment acquired by the Company for the purchase of minority equities and the share of net assets calculated constantly from the acquisition date (or combination date) according to the newly increased shareholding ratio. Where the share premium is insufficient, retained earnings will be adjusted.

The equity premium of capital reserves in the consolidated balance sheet will be adjusted according to the difference between the disposal price obtained for partial disposal of long–term equity investments in subsidiaries in the case of not lose control and the share of net assets of subsidiaries calculated from the acquisition date or the combination date corresponding to the disposal of long–term equity investments; if the equity premium of capital reserves is insufficient, the retained earnings will be adjusted.

4.6 Recognition criteria of cash and cash equivalents

Cash and cash equivalents refer to the short-term and highly liquid monetary assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, which are held by the Company, including cash, unrestricted deposits with the central bank, interbank deposits and deposits with other financial institutions with an original maturity period of not more than three months, loans to banks and other financial institutions and amounts of purchase under resale agreements.

4.7 Accounting method and conversion method of foreign currency business

4.7.1 Foreign currency transactions

The Company's foreign currency transaction is converted into RMB for recording purpose at the spot exchange rate on the day when the transaction occurs. As at the balance sheet date, monetary assets and liabilities in foreign currency shall be converted into RMB at the spot exchange rate prevailing on the balance sheet date. The gains or losses arising from the exchange difference are recorded in the financial expenses during the operation period. The gains or losses relevant to the acquisition and construction of fixed assets, oil and gas assets and other assets eligible for capitalization shall be measured in accordance with the relevant provisions of the borrowing costs. The gains or losses during the liquidation period are recorded in the profits or losses on liquidation.

Foreign currency non-monetary items measured at historical costs shall still be translated at the spot exchange rates on the transaction dates and the amount in functional currency (RMB) shall remain unchanged. Foreign currency non-monetary items measured at fair value shall be translated into RMB at the spot exchange rates on the day when the fair value is determined. The exchange difference arising therefrom is recorded in current profit or loss as the change of the fair value.

4.7.2 Translation of the financial statements denominated in foreign currency

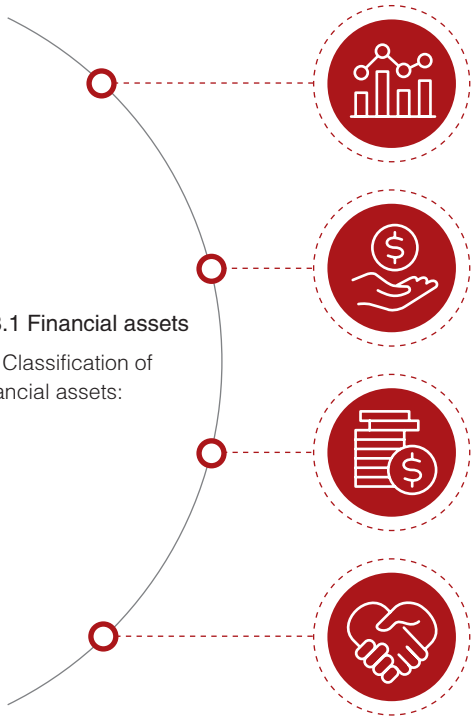
Assets and liabilities in the balance sheet of overseas operations are translated at the spot exchange rates on the balance sheet date. Owners' equity items, except for "undistributed profits", are translated at spot exchange rates upon occurrence. Income and expense items in the income statement of overseas operations are translated at average exchange rate of the daily RMB exchange rate (medial rate) announced by the People's Bank of China for the period. Differences arising from such translation are recognized as foreign currency translation differences separately disclosed in owners' equity. For foreign currency monetary items

that are substantially the investments in overseas entities, exchange differences resulting from foreign currency rate fluctuation are recognized as foreign currency translation differences separately disclosed in shareholders' equity when preparing consolidated financial statements. In case of disposal of overseas entities, these translation differences in connection with the overseas operation are recognized in current profit or loss proportionally.

Beginning balance of cash and cash equivalents of statement of foreign currency cash flows is translated at the exchange rate at the beginning of the period of such statement, while ending balance is translated at the spot exchange rate on the balance sheet date. Other items of the statement of cash flows are translated at average rate of the daily RMB exchange rate (medial rate) announced by the People's Bank of China for the period. Translation differences arising therefrom are separately disclosed as the "effect of fluctuations in foreign exchange rate on cash" in the statement of cash flows.

4.8 Financial instruments

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



4.8.1 Financial assets

(1) Classification of financial assets:

Including financial assets measured at fair value through current profit or loss

Financial assets measured at fair value through current profit or loss are the financial assets held to be sold in short term and those designated to be measured at fair value through current profit or loss.

Held–to–maturity investments

Held–to–maturity investments are non–derivative financial assets with fixed maturity date and fixed or determinable recoverable payments, with which the Company has the intention and ability to hold to maturity.

Loans and accounts receivable

Loans and accounts receivable are non–derivative financial assets having no quote in the active market and having fixed or determinable recoverable amount.

Available–for–sale financial assets

Available–for–sale financial assets are either the non–derivative financial assets designated for sale upon initial recognition or the other financial assets that are not classified in any of other categories.

(2) Recognition basis and measurement methods

Financial assets are initially recorded at fair value. For financial assets measured at fair value through current profit or loss, relevant transaction expenses for acquisition are directly included in current profit or loss. For other financial assets, the relevant transaction expenses are included in the amount upon initial recognition.

Financial assets measured at fair value through current profit or loss and the available–for–sale financial assets are subsequently measured at fair value. For equity instrument investments without quotes in the active market and whose fair values cannot be reliably measured, they are measured at cost. Loans, accounts receivable and held–to–maturity investments are measured at amortized cost by using the effective interest method. If the difference between effective interest rate and coupon rate is insignificant, coupon rate would be used in calculating interest and investment income (The same below).

For the financial assets measured at their fair value through current profit or loss, the interests or cash dividends received during the period of holding the assets are recognized as investment income, and the changes in their fair value are charged to current gains or losses at the end of the period. Difference between the fair value and initial book–entry value is recognized as profits and losses on investment upon disposal; meanwhile the adjustment is made to gains or losses from changes in fair values.

During the holding period, interest income is recognized based on the amortized cost and effective interest rate. The effective interest rates are determined upon acquisition and remain unchanged during the expected remaining period, or a shorter period if applicable. Difference between the proceeds and the book value of the investment is recognized as investment income upon disposal.

For loans and accounts receivable, the difference between the actual amount received and the book value of accounts receivable shall be recognized as current profits or losses when they are recovered or disposed of by the Company.

The interest or cash dividends on available–for–sale financial assets to be received during the holding period are recognized as investment income. Changes in fair value are included in the current profit or loss at the end of the period. Difference between the proceeds and the book value of the financial assets is recognized as gain or loss on investment upon disposal. Meanwhile, amount of disposal corresponding to the accumulated change in fair value which is originally and directly included in the owners' equity shall be transferred out and recognized as gains or losses on investment upon disposal.

4.8.2 Transfer of financial assets

When transfer of financial assets occurs, the Company derecognizes the financial assets if the risks and rewards of ownership of the financial assets are significantly transferred to the transferee. If the substantial risks and rewards of ownership of the financial assets are retained by the Company, the Company still recognizes the financial assets.

The principle of substance over form is adopted to determine whether the transfer of a financial asset satisfies the criteria as described above for de-recognition of a financial asset. The Company shall classify the transfer of a financial asset into the entire transfer and the partial transfer of financial asset. If the entire transfer of financial asset satisfies the criteria for de-recognition, the difference between the amounts of the following two items shall be included in the current profit or loss:

(1) The book value of the transferred financial asset;

(2) The sum of the consideration received from the transfer and the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial asset transferred is an available-for-sale financial asset is involved).

If the partial transfer of financial asset satisfies the criteria for de-recognition, the entire book value of the transferred financial asset shall be split into the derecognized and recognized part according to their respective fair value and the difference between the amounts of the following two items shall be included in the current profit or loss:

(1) The book value of derecognized part;

(2) The sum of the consideration for the derecognized part and the portion of de-recognition corresponding to the accumulated amount of the changes in fair value originally and directly included in owners' equity (the situation where the financial asset transferred is an available-for-sale financial asset is involved).

If the transfer of financial assets does not meet the derecognition criteria, the financial assets shall continue to be recognized, and the consideration received will be recognized as a financial liability.

4.8.3 The impairment of financial assets

Except for financial assets measured at fair value through current profit or loss, the Company examines

the book value of other financial assets at the end of the period. If there is objective evidence indicating the specific financial asset has impaired, provision for impairment is made.

For financial assets measured at amortized cost, if the fair value has been impaired, provision for impairment is made at the difference of present value of expected future cash flows lower than the book value. If there is evidence showing that the fair value of the specific financial assets has been recovered, and that the recovery is related to events after recognition of impairment loss, the originally recognized impairment loss should be reversed and included in current profit or loss.

If the fair value of available-for-sale financial assets has greatly dropped, or the decrease trend is expected to be non-temporary, accumulated losses previously recognized directly in shareholders' equity due to decreases in fair value are transferred out and charged to impairment loss. For available-for-sale debt instrument investments, if their fair values increase and the increases are related to events after recognition of impairment loss, the originally recognized impairment loss is reversed and charged to current profit or loss. For available-for-sale equity instrument investments that impairment losses have been recognized, if their fair values increase and the increases are related to events after recognition of impairment loss, the originally recognized impairment loss is reversed and directly charged to owners' equity.

In accordance with the instructions in the Notice of the CBRC on Printing and Releasing the Loan Risk Classification Guidelines (YJF [2007] No. 54) and the Guiding Opinions of the CBRC on the Chinese Banking Industry's Implementation of New Regulatory

Standards (YJF [2011] No. 44) issued by the CBRC, the Company divides loans into five categories – pass, special–mention, substandard, doubtful and loss. When there are signs indicating that borrowers have difficulties in full repayments due to obvious problems in repaying ability, loans will be classified as non–performing loans, which are substandard, doubtful and loss as defined by five categories of loans.

In principle, the provision for impairment losses on assets is proportionally made by the Company based on the five categories of assets. For some individual assets with a large amount and special risk status (including credit assets, security investments and interbank deposits, etc.), the provision for impairment losses on assets can be made separately by specific identification method in accordance with the operation condition of the counterparties, debtors and issuers, the operation environment and others.

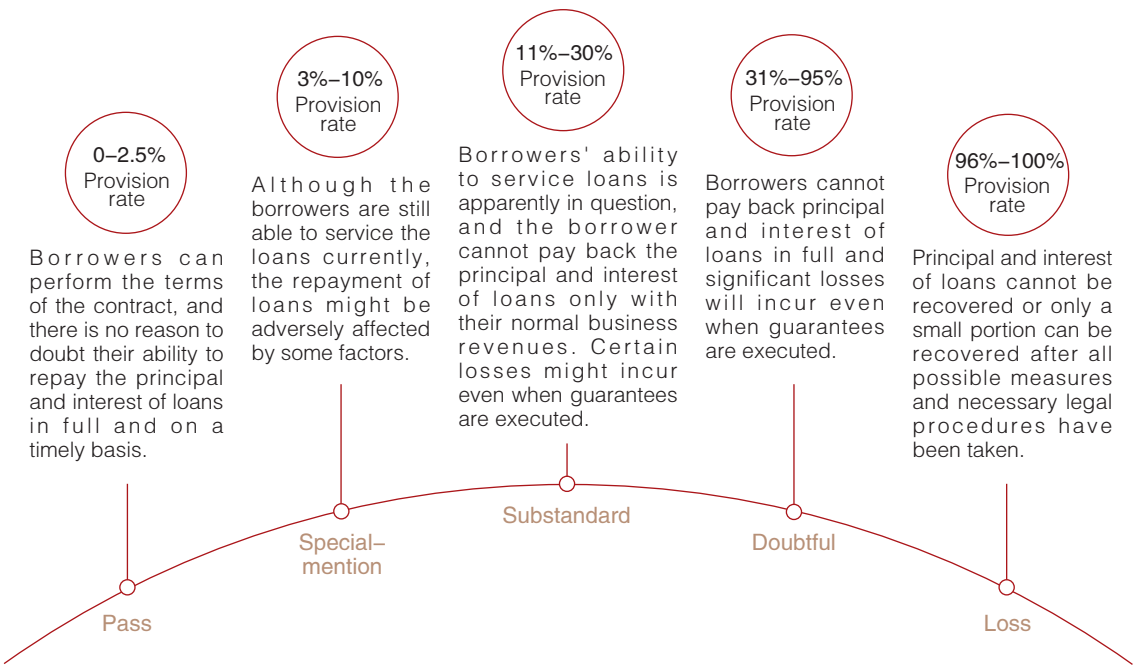
(1) The five categories of major assets:

A. Credit assets: Credit assets are divided into five categories in accordance with requirements of the CBRC and the relevant provisions of the Company.

B. Security investments: Bank financial products guaranteed by the five state–controlled banks, namely, Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications, are classified as Pass and the impairment provision rate is 2.5%; trust products, asset–securitized products and other bank financial products guaranteed by other banks than the five state–controlled banks are classified as Special–mention and the impairment provision rate is 3.5%.

C. Inter–bank deposits: In general, inter–bank deposits in financial institutions all over the world by the Company are classified as Pass and no provision for impairment losses is made. Nevertheless, when signs indicate significant changes in the financial institution's operating conditions, the economic environment, political setting and other factors of the countries where the financial institutions locate, the impairment provision on the inter–bank deposits in those financial institutions is made by using specific identification method.

(2) The general principles of five categories of loans:



Among which: For special–mention category, reference is made to the risk level of credit assets, and provision is made on assets group according to financial profits and losses, assets to liabilities ratio, domestic and foreign loans and other risk characteristics.

December 18 Commenced its business

1995

(3) The classification of loans to banks and other financial institutions and the impairment provision rate are listed as follows:

A 2.5%

Loans to banks and other financial institutions with the principal and interest retrievable on time are classified as Pass and the impairment provision rate is 2.5%;

B 10%

Loans to banks and other financial institutions overdue less than one month (including one month) are classified as Special–mention and the impairment provision rate is 10%;

C 30%

Loans to banks and other financial institutions overdue more than one month and less than three months (including three months) are classified as Substandard and the impairment provision rate is 30%;

D 95%

Loans to banks and other financial institutions overdue more than three months and less than six months (including six months) are classified as Doubtful and the impairment provision rate is 95%;

E 100%

Loans to banks and other financial institutions overdue more than six months are classified as Loss and the impairment provision rate is 100%.

(4) Other receivables

A. Provision method for bad debts

The Company adopts the allowance method for potential bad debts. At the end of the period, the provision for bad debts is made at the following rates and recorded in current profit or loss. Receivables with strong evidence showing the debtors failed to repay obligations are considered as losses on bad debts and shall be written off with the approval after the stipulated procedures.

A 2.5%

Receivables with aging within three months (including three months) are classified as Pass and the provision rate is 2.5%;

B 10%

Receivables with aging of more than three months and less than six months (including six months) are classified as Special–mention and the provision rate is 10%;

C 30%

Receivables with aging of more than six months and less than one year (including one year) are classified as Substandard and the provision rate is 30%;

D 95%

Receivables with aging of more than one year and less than two years (including two years) are classified as Doubtful and the provision rate is 95%;

E 100%

Receivables with aging of more than two years are classified as Loss and the provision rate is 100%.

B. Recognition criteria of bad debts loss

a. Uncollectable receivables arising from the debtor's bankruptcy or repeal declared in accordance with the law and the debtor's inability to pay off by the liquidating property;

b. Uncollectable receivables arising from the debtor's death or the debtor being declared missing or dead by laws with insufficient property or heritage to pay off debts;

c. Uncollectable receivables involved in litigation arising from, for example, the defeated party with an effective verdict (or a ruling) by the People's Court or the prevailing party with a verdict of an execution cease or incapability of an execution recovery due to the court's failure of execution;

d. Uncollectable receivables arising from the cease of production, the huge loss and failure of the repayment by the properties within three years (including insurance claim) due to the natural disasters or accidents the debtor has suffered.

Overseas wholly-owned subsidiaries of the Company and subsidiaries of the Company's subsidiaries do not make provision for impairment on assets, and the headquarters (the parent company) shall make corresponding adjustments when preparing the consolidated financial statements.

4.8.4 Financial liabilities

(1) Classification of financial liabilities

The financial liabilities of the Company are classified upon initial recognition as financial liabilities measured at fair value through current profit or loss and other financial liabilities.

(2) Recognition basis and measurement methods

Financial liabilities are initially recognized at fair value. As to the financial liabilities recognized at fair value through current profit or loss, the relevant transaction costs are charged to the current profit or loss upon acquisition. Relevant transaction costs of other financial liabilities are included in the amount upon initial recognition.

Financial liabilities measured at fair value through current profit or loss are subsequently measured at fair value without deducting the future transaction cost, which may occur during the settlement; except for hedging-related financial liabilities, the changes in fair value of such financial liabilities are charged to profits and losses in changes in fair value.

Other financial liabilities are subsequently measured at amortized cost by using the effective interest method.

(3) De-recognition criteria of financial liabilities

A financial liability shall be wholly or partly derecognized if its present obligations are wholly or partly dissolved. Where the Company enters into an agreement with a creditor so as to substitute the existing financial liabilities with any new financial liability, and the new financial liability is substantially different from the contractual stipulations regarding the existing financial liability, it shall derecognize the existing financial liability, and recognize a new one at the same time.

Where substantial revisions are made to some or all of the contractual stipulations of the existing financial liability, the Company shall derecognize the existing financial liability wholly or partly, and at the same time recognize the financial liability with revised contractual stipulations as a new financial liability.

Upon whole or partial de-recognition of financial liabilities, the difference between the book value of the financial liabilities derecognized and the consideration paid (including non-cash assets surrendered or new financial liabilities assumed) shall be included in the current profit or loss.

Where the Company redeems part of its financial liabilities, it shall, on the redemption date, allocate the entire book value of financial liabilities according to the comparative fair value of the part that continues to be recognized and de-recognized part. The difference between the book value allocated to the derecognized part and the considerations paid (including non-cash assets surrendered and the new financial liabilities assumed) shall be included in the current profit or loss.

4.8.5 Measures for recognition of fair value of financial assets and liabilities

See the Note 4.21 for the information on measurement of fair value.

4.8.6 Entrusted loans

Entrusted loans are accounted at the actual amount of the loans entrusted. The handling charges at the end of the period are calculated at the stipulated rate for the entrusted loans and included in income from handling charges.

4.8.7 Derivative instruments

The term "derivative instruments" refers to the financial instruments or other contracts that contain the following characters involved in the recognition and measurement standard of financial instruments:

(1) Firstly, the value thereof varies with particular interest rates, prices of financial instruments, prices of commodities, foreign exchange rates, price indexes, cost indexes, credit ratings, credit indexes, and other similar variables; if the variable is a non-financial variable, there is no special relationship between such variable and any party to the contract; changes in the value of derivatives depend on the change of object variables.

(2) No initial net investment is required or, compared with other types of contracts that respond to the market changes similarly, very little initial net investment is required.

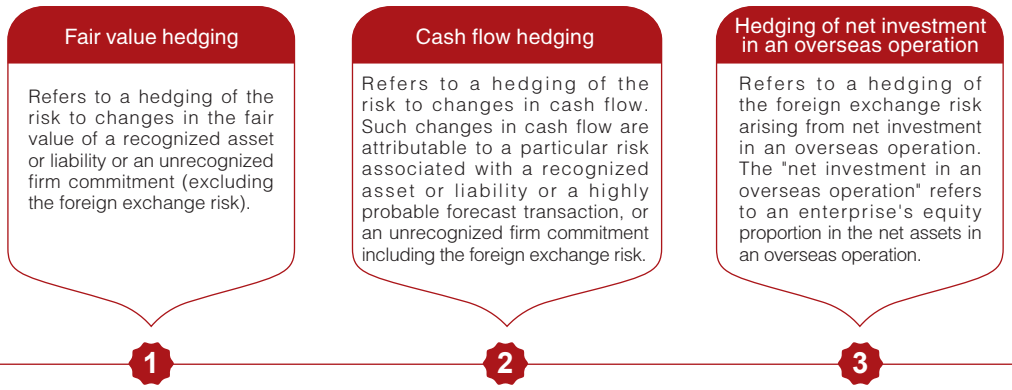
(3) It is settled at a certain future date.

Derivative instruments include forward contracts, futures contracts, swaps and options, as well as the instruments that contain one or more of the features of the above.

The derivative instruments' initial recognition shall be measured at their fair value when the derivative transaction contract is signed. On the balance sheet date, the Company shall make subsequent measurement to derivative instruments according to their fair values, and the difference between fair value and book value is recognized in "the profits and losses from the changes in fair value." The fair value is determined by the public bidding price in the open and active market. Derecognized derivatives are accounted for by reference to the provisions of held-for-trading financial assets and held-for-trading financial liabilities.

4.9 Hedging instruments

4.9.1 Classification of hedging



4.9.2 Designation of the hedging relationship and determination of the effectiveness of the hedging

At the commencement of the hedging relationship, the Company formally designates the hedging relationship and prepares a formal written document about the hedging relationship, risk management objectives and the strategies of hedging. This document specifies the hedging instrument, the hedged item or transaction, the nature of the hedged risk and the method for the assessment of the effectiveness of the hedging by the Company.

The "effectiveness of hedging" refers to the extent that the changes in the fair value or cash flow of a hedging instrument offsets the changes resulting from the hedging risks in the fair value or cash flow of a hedged item. The Company continuously assesses the effectiveness of the hedging and judges whether the hedging is highly effective in the accounting period designated for the hedging relationship or not. If a hedging simultaneously satisfies the following conditions, the Company shall recognize it as being highly efficient:

(1) At the commencement of hedging and in subsequent periods, the hedging is expected to be highly effective in offsetting the changes in the fair value or cash flow caused by the hedged risk during the designated periods;

(2) The hedging's actual offset results are within a range of 80% to 125%.

4.9.3 Accounting method of hedging

(1) Fair value hedging

The changes in the fair value of a hedging derivative instrument are included in the current profit or loss. The changes arising from hedging risks to the fair value of a hedged item are included in the current profit or loss, and, at the same time, the book value of the hedged item is adjusted.

With respect to a fair value hedging relating to the financial instruments measured at amortized cost, the adjustments in the book value of a hedged item are amortized over the residual period between the adjustment date and the maturity date, and are included in the current profit or loss. The amortization under the effective interest method may begin promptly after the adjustment in the book value and shall not be later than the adjustment made for the changes in fair value resulting from hedging risk upon the completion of hedged item.

If a hedged item is derecognized, the unamortized fair value shall be recognized as the current profit or loss.

Where a hedged item is an unrecognized firm commitment, the accumulative amount of the changes in the fair value of the firm commitment incurred by the hedged risk shall be recognized as an asset or liability and the relevant profit or loss shall be recorded in the profit or loss of the current period.

(2) Cash flow hedging

The portion of profit or loss on the hedging instrument that is attributable to the effective hedging is directly recognized as other comprehensive income; while the portion that is attributable to the ineffective hedging is included in the current profit or loss.

If a hedged transaction affects the current profit or loss, when the hedged financial income or expenses are recognized or the presale occurs, the amounts recognized in the other comprehensive income shall be transferred in the current profit or loss. If a hedged item is the cost of a non–financial asset or non–financial liability, the amount originally recognized in other comprehensive income shall be transferred out and be included in the initial recognition amount of the non–financial asset or non–financial liability (or the amount originally recognized in other comprehensive income shall be transferred out during the same period in which the impact on the profit of non–financial asset or non–financial liability are affected and be included in the current profit or loss).

Registered capital of a company

8.33125

Billion

If the expected transaction or firm commitment shall not occur, the accumulative profit or loss of hedging instrument previously included in the shareholders' equity shall be transferred out and be included in the current profit or loss. If the hedging instrument has matured or been sold, or the contract is terminated or has been exercised (but has not been replaced or extended), or the designation of hedging relationship is cancelled, the amounts previously included in other comprehensive income shall not be transferred out, unless the current profit or loss of the expected transaction or firm commitment are affected.

(3) Hedging of net investment in an overseas operation

A hedging of net investment in an overseas operation, including the hedging of monetary item as part of net investment, shall be treated according to the provisions similar to the cash flow hedging accounting; the portion of profit or loss on the hedging instrument that is attributable to the effective hedging is recognized as other comprehensive income; while the portion that is attributable to the ineffective hedging is included in the current profit or loss. When the overseas business is disposed, any accumulative profit or loss included in the shareholders' equity shall be transferred out and included in the current profit or loss.

4.10 Lonag–term equity investments

4.10.1 Determination of investment cost

(1) Long–term equity investment acquired from business combination

Business combination under common control: if the Company makes payment in cash, transfers non–cash assets or bears debts and issues equity securities as the consideration for the business combination, the sharing of book value of the owners' equity of the combine obtained in the consolidated financial statements is recognized as the initial cost of the long–term equity investment on the combination date. The stock premium in the capital reserve is adjusted according to the difference between the initial cost of long–term equity investment and the payment in cash, non–cash assets transferred, book value of debts assumed and total face value of issued shares; if there is no sufficient premium in the capital reserve for write–downs, the retained earnings are adjusted. Where control can be executed on the investee under common control for reasons such as additional investment, the initial cost of the long–term equity investment shall be determined based on the share of the accessible net assets of the combine in the book value of the consolidated financial statements of the ultimate controller on the combination date. The stock premium is adjusted according to the difference between the initial cost of the long–term equity investment on the combination date and, the sum of the book value of long–term equity investment prior to the realization of combination and the book value of the consideration newly paid for further acquisition of shares on the combination date, and if there is no sufficient premium for write–offs, the retained earnings are written off.

Business combination not under common control: The Company recognizes the combination cost determined on the combination date as the initial cost of long–term equity investment. Where control can be executed on the investee not under common control for reasons such as additional investment, the initial cost of the long–term equity investment shall be accounted in the cost method based on the book value of the equity investment originally held plus the newly–added investment cost.

Intermediary costs such as audit fee, legal service fee, appraisal and consultancy fee paid for the business combination and other relevant administrative expenses are included in the current profit or loss when incurred; the transaction costs for the issuance of equity securities or the debt securities as the consideration for the business combination are included in the initially recognition amounts of the equity or debt securities.

(2) Long–term equity investment acquired by other means

For long–term equity investments acquired from making payments in cash, the initial cost is the actually paid purchase cost.

For long–term equity investments acquired from issuance of equity securities, the initial cost is the fair value of the issued equity securities.

If the exchange of non–monetary assets has commercial substance, and the fair values of assets traded out and traded in can be measured reliably, the initial cost of long–term equity investment traded in with non–monetary assets are determined based on the fair values of the assets traded out unless there is any conclusive evidence showing that the fair values of the assets traded in are more reliable. If the exchange of non–monetary assets does not meet the above criteria, the book value of the assets traded out and relevant taxes and surcharges payable are recognized as the initial cost of long–term equity investment traded in.

For a long–term equity investment acquired from debt restructuring, the initial cost is determined based on the fair value.

4.10.2 Subsequent measurement and recognition of profit or loss

(1) Long–term equity investment calculated under the cost method

Long–term equity investments of the Company in its

subsidiaries are accounted for at cost method. Except for the actual price paid for acquisition of investment or the cash dividends or profits contained in the consideration which have been declared but not yet distributed, the Company recognizes the proportion it shall enjoy in the cash dividends or profits declared by the investee as its investment income.

(2) Long–term equity investments calculated under the equity method

Long–term equity investments of the Company in associates and joint ventures are accounted for in the equity method. If the cost of initial investment is in excess of the proportion of the fair value of the net identifiable assets in the investee when the investment is made, the difference will not be adjusted to the initial cost of long–term equity investment; if the cost of initial investment is in short of the proportion of the fair value of the net identifiable assets in the investee when the investment is made, the difference will be included in the current profit or loss.

The Company should recognize the investment income and other comprehensive income respectively in accordance with its share of net profit or loss and other comprehensive income realized by the investees that it should enjoy or share, and adjust the book value of long–term equity investments; calculate the part it shall have based on the distributable profits or cash dividends declared by the investees, and reduce accordingly the book value of long–term equity investments; for changes in owners' equity of the investees other than those in net gains or losses, other comprehensive income and profit distribution, the book value of long–term equity investments shall be adjusted and included in the owners' equity.

The share the Company shall have in the net gains or losses of the investees is recognized after adjustment to the net profits of the investees based on the fair value of the net identifiable assets of the investees when the investment is made and according to the accounting policies and accounting period of the Company. During the period when the investment is held, where the investees prepare consolidated financial statements, such shall be accounted for based on the amount attributable to the investees in the net profits, other comprehensive income and other changes in the owners' equity listed in the consolidated financial statements.

For gains or losses from unrealized internal transitions between the Company and the associates or joint ventures, the part attributable to the Company is calculated according to the proportion it shall have, and offset, based on which the investment income is recognized. The losses from unrealized internal transactions with the investees that are losses on asset impairment shall be recognized in full amount.

When the Company recognize the share it should take in the losses of the investee, treatment shall be done in following sequence: firstly, the book value of the long–term equity investment shall be reduced; secondly, where the book value is insufficient to cover the share of losses, investment losses are recognized to the extent of book value of other long–term equity which form net investment in the investee in substance and the book value of long term receivables shall be reduced; finally, after all the above treatments, if the Company is still responsible for any additional liabilities in accordance with the provisions stipulated in the investment contracts or agreements, estimated liabilities are recognized and included into current investment loss according to the obligations estimated to undertake. If the investee achieves profit in subsequent periods, the treatment is in the reversed sequence described above, i.e. after deducting any unrecognized investment losses, reduce book value of estimated liabilities recognized, restore book values of other long–term equity which form net investment in the investee in substance, and of long–term equity investment, and recognize investment income at the same time.

(3) Disposal of long–term equity investments

For disposal of long–term equity investment, the difference between its book value and the actual price for acquisition shall be included in current profit or loss.

For the long–term equity investment calculated under the equity method, upon disposal of such investment, accounting treatment shall be conducted on the part included in other comprehensive income originally in corresponding proportion by using the same basis for direct disposal of the relevant assets or liabilities by the investee. The owners' equity recognized from changes in owners' equity of the investee other than net profits or losses, other comprehensive income and profit distribution shall be transferred to current profit or loss in the corresponding proportion.

In case the joint control or significant influence on the investee is lost due to the disposal of part of equity investments and other reasons, the remaining equity upon disposal shall be accounted for in the recognition and measurement criteria for financial instruments, and the difference between the fair value on date when the Company loses the joint control or significant influence and the book value shall be included in the current profit or loss. For other comprehensive income recognized from the original equity investment by using the equity method, the accounting treatment shall be conducted by using the same basis for direct disposal of the relevant assets or liabilities by the investor when the equity method is not used. The owners' equity recognized from changes in owners' equity of the investee other than net profits or losses, other comprehensive income and profit distribution shall be transferred totally into the current profit or loss when the equity method is not used.

In case the control over the investee is lost due to disposal of part of equity investments or other reasons, in the preparation of individual financial statements, the remaining equity after the disposal that can exercise

joint control or exert significant influence over the investee shall be calculated under the equity method, and such remaining equity shall be adjusted as if it had been accounted for in the equity method since the time of acquisition; the remaining equity after disposal that cannot exercise joint control or exert significant influence over the investee shall be subject to account treatment according to the relevant provisions of the recognition and measurement criteria for financial instruments, and the difference between the fair value on the date when the control is lost and the book value shall be included into the current profit or loss.

In case the equity disposed of is acquired through business combination due to additional investment or other reasons, in the preparation of individual financial statements, if the remaining equity after the disposal is accounted for in the cost method or the equity method, other comprehensive income and other owners' equity recognized from the equity investments held before the date of acquisition in the equity method shall be carried over in proportion; if the remaining equity after the disposal is subject to accounting treatment according to the recognition and measurement criteria for financial instruments, all the other comprehensive income and other owners' equity shall be carried over.

4.10.3 Determination basis of joint control or significant influence over the investee

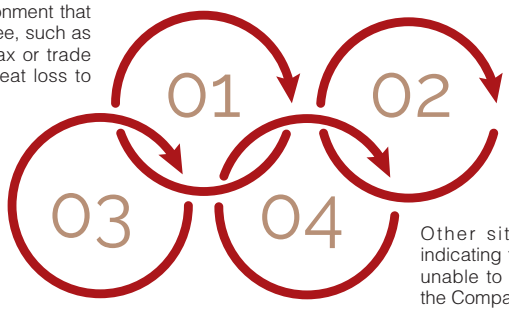
Joint control is the sharing of control over a certain arrangement in accordance with the relevant agreement, and the relevant activities of such arrangement may be decided only upon the unanimous consent of the parties sharing the control. Where the Company and other parties do joint control over an investee and are entitled to the net assets of the investee, the investee shall be deemed as a joint venture of the Company.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not the control or joint control over those polices. Where an investing enterprise is able to have significant influence on an investee, the investee shall be its associate.

4.10.4 Testing and provision method for impairment

The Company conducts an impairment test for the long–term equity investment at the end of the period, and provides a provision for long–term equity investment impairment at the difference between the recoverable amount and the book value of long–term equity investment. Once recognized, the impairment loss of long–term equity investment shall not be reversed.

For long–term equity investments without market price, one of the following items indicates that the long–term equity investment may be impaired:



01 Change of the political or legal environment that may affect the operation of the investee, such as the promulgation or revision of the tax or trade laws and regulations, may cause great loss to the investee;

02 The products or service of the investee are obsolete and resulted in changes of market demands, which lead to a serious deterioration in the financial position of the investee;

03 Significant changes in the production technology and others occur in the industry in which the investee operates, and lead to the loss of competitiveness of the investee, which lead to a serious deterioration in financial condition, such as restructuring or liquidation;

04 Other situations with the evidence indicating that the investment is essentially unable to bring the economic benefits to the Company.

4.11 Fixed assets

4.11.1 Fixed assets

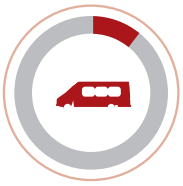
Fixed assets are tangible assets that are held for use in the production of goods or supply of services, for rental to others, or for administrative purposes and have useful life of more than one accounting year.

4.11.2 Measurement of fixed assets

A fixed asset is initially recorded at its cost. The cost of a fixed asset which is purchased comprises its purchase price, value–added tax (excluding the deductible VAT input), import duties and other related taxes and surcharges, and other directly attributable expenditures for bringing the asset to working condition for its intended use; a self–constructed fixed asset is recorded at the total amount of expenditure necessarily incurred for bringing the asset to working condition for its intended use; a fixed asset contributed by an investor is recorded at the value stipulated in the investment contract or agreement, or recorded at fair value if the value stipulated in the contract or agreement is unfair; a fixed asset acquired under a finance lease is recorded at the lower of the fair value and the present value of the minimum rental payment of the leased assets as starting of the lease date.

4.11.3 Classification and depreciation of fixed assets

The Company provides depreciation for all its fixed assets except for the fully depreciated fixed assets that are still in use and the land that is separately valued and recorded as a fixed asset in accordance with relevant regulations. Fixed assets are depreciated on a straight–line basis. Expected residual value of fixed assets is 5% of original cost. The categories, depreciation life and depreciation rates are listed as follows:



11.88%
Transportation equipment 8 years

6.79%~23.75%
Office equipment 4 to 14 years

2.38%
Building 40 years

4.11.4 Provision for impairment of fixed assets

The Company examines its fixed assets at the end of the period and if the following circumstances are discovered, the Company will calculate the recoverable amount of a fixed asset to determine whether the asset is impaired. If the recoverable amount of a fixed asset is lower than its book value, the Company makes a provision for impairment of the fixed asset at an amount equal to the difference between the single fixed asset's recoverable amount lower than its book value. The provision of impairment cannot be reversed in the subsequent accounting periods once made.

(1) Market price of the fixed asset has declined significantly, which is apparently more than expected decline as a result of the passage of time or normal use;

(2) Significant changes with an adverse effect on the Company in the technological, economic or legal environment in which the enterprise operates or in the market for the Company's assets have taken place during the period, or will take place in the near future;

(3) The market interest rates or other market rate of return on investment in the current period have been increased so that the Company's calculation of the discount rate of the present value of the estimated future cash flows is affected, leading to significant reduction in the recoverable amounts of the assets;

(4) There is evidence showing that the assets have been obsolete or actually damaged;

(5) The fixed asset has been or will be left unused, or terminated for use, or disposed ahead of schedule;

(6) Evidence of the Company's internal report indicates that the economic performance of the fixed asset has been or will be lower than the expectation. The net cash flows or operating profits (or losses) from assets are significantly lower (or higher) than the expected amount;

(7) Other circumstances under which there is any sign indicating that the asset may be impaired.

For the fixed assets under any of the following circumstances, the recoverable amount is zero:

(1) Oil gas gathering and transportation facilities, oil and gas transportation pipeline, oil storage facilities and others will not be utilized in the future due to exhausted resources; and

(2) The office buildings, employee dormitory and other fixed assets in mining area, which are no longer developed or produced, and will not be used in future according to expectation.

4.11.5 Subsequent expenditure of fixed assets

Subsequent expenses relating to fixed assets mainly include repair, betterment and renovation and so on. The expenses will be recognized as cost of fixed asset when meeting the requirements of capitalization; for the replaced component, its book value shall be derecognized; other subsequent expenses are included in current profit or loss upon occurrence.

When the fixed assets have been disposed or cannot bring economic benefit through the expected usage or disposal, the fixed assets are derecognized. The amount of proceeds from being sold, transferred, obsoleted or destroyed, after deducting the book value and related taxes and surcharges, is included in current profit or loss.

4.12 Intangible assets

4.12.1 Intangible assets

The term "intangible assets" refers to the identifiable non–monetary assets possessed or controlled by the Company which have no physical shape. Intangible assets of the Company mainly include financial software and land use rights.

4.12.2 Evaluation method of intangible assets

The intangible assets shall be measured at the actual cost on acquisition. The actual cost of a purchased intangible asset shall be the actual payment for the purchase and other relevant expenses; the actual cost of an intangible asset invested by investor shall be determined according to the value agreed in the investment contract or agreement, but if the value of the contract or agreement is not fair, the actual cost shall be determined according to the fair value;

4.12.3 Amortization method and period of intangible assets

An intangible asset with a limited useful life is amortized using the straight–line method over its useful life from the time when it is available for use to the time when it is not recognized as an intangible asset. An intangible asset with an indefinite useful life shall not be amortized. The Company will reexamine the estimated useful life and amortization methods of intangible assets with limited useful life at the end of each year. And in each accounting period, the Company reviews the estimated useful life of intangible asset with indefinite useful, and estimates the useful life and amortizes the asset over its estimated useful life when there is evidence showing that the intangible asset has limited life.

4.12.4 Recognition criteria and provision method for intangible asset impairment provision

For the intangible assets with indefinit lives and the intangible assets with definite lives and involved in one or several situations below, their impairment provisions shall be made at the difference of their estimated recoverable amounts in short of their book values at the end of the period. Once provision for impairment of intangible assets is made, it shall not be reversed in subsequent accounting periods.

1. The intangible asset is replaced by other new technologies, which adversely affects its ability to generate economic benefits for the Company;
2. The market price falls sharply in the period, and is estimated not to be recovered in the remaining amortization period;
3. The intangible asset is no longer within legal protection term but still has some use value;
4. Other circumstances that may prove that the impairment has been essentially incurred.

4.13 Long–term deferred expenses

The Company's long–term deferred expenses refer to the renovation costs that have been incurred but have more than one–year amortization period, and are averagely amortized within the benefit period.

4.14 Employee compensation

Employee compensations refer to multiform remuneration or compensation offered of the Company in order to get services provided by its employees or terminate the labor relation,mainly including short–term compensation, post–employment benefits, dismissal benefits and other long–term employee benefits.

4.14.1 Short–term compensation

During the accounting period when employees serve the Company, the actual short–term compensation is recognized as liabilities and included in current profit or loss or related asset costs.

The social insurance premium and the housing provident fund paid by the Company for its employees, together with the labor union expenditures and employee education drew as required are used to calculate and determine the relevant employee compensation amount based on the prescribed accrual basis and accrual proportion during the accounting period in which the employees provide services to the Company.

Employee welfare, if being non–monetary benefits that can be measured reliably, is measured at fair value.

4.14.2 Dismissal welfare

When the Company fails to unilaterally withdraw the dismissal benefits offered due to the termination of the labor relation plan or layoff proposal, or confirms the costs or fees associated with the reorganization involving the payment of the dismissal benefits (whatever is earlier), the employee compensation liabilities arising from the confirmation of dismissal benefits are included in the current profit or loss.

4.14.3 Post–employment benefits

(1) Defined contribution plans

The Company pays basic endowment insurance premium and unemployment insurance premium for its employees in accordance with relevant provisions of local government. During the accounting period when the Company receives services from employees, the payable amount calculated based on the basis and proportion prescribed is recognized as an liability and included in current profit or loss, or related asset cost.

The Company establishes enterprise annuity system, and the enterprise annuity fund shall be paid by the Company and individual collectively. The part of enterprise annuity fund assumed by the Company will be withdrawn at 5% of the total salaries of last year from the cost of the Company; the part assumed by the individual shall be 1% of the payment base of the basic endowment insurance in that year, and will be deducted by the Company from the salaries of the employees.

(2) Defined benefit plans

The Company, according to the formula determined based on expected accumulative walfare unit method, recognizes the welfare obligations arising from defined benefit plan to the period of receiving services from employees and includes them into the current profit or loss or relelated asset costs.

A net liability or net asset in connection with the defined benefit plan is recognized at the present value of the obligation under the defined benefit plan less the deficit or surplus arising from the fair value of the assets under the defined benefit plan. For a surplus of defined benefit plans, the Company should measure the net asset of such defined benefit plans at the lower of the surplus of such defined benefit plans and the asset thereof.

All obligations under the defined benefit plan, including the estimated payment obligation within 12 months following the annual report period during which the employees provide service, are discounted to the present value at the market return of the national debt corresponding to the period and currencies of the obligations under the defined benefit plan or high–quality corporate bonds active on the market on the balance sheet date.

Net interest of the service costs arising from the defined benefit plan and net defined benefit liabilities or assets is included in the current profit or loss, or related asset costs; changes due to the remeasurement of net defined benefit liabilities or assets are included in other comprehensive income and will not turned into the proft or loss during the subsequent accounting period.

Upon settlement of defined benefit plan, the difference between the present value of defined benefit plan obligation determined on the settlement date and the settlement price thereof is recognized as settlement profit or loss.

4.15 Bonds payable

4.15.1 Measurement and amortization of premium or discount of bonds payable

Bonds payable are measured at the actual issue price; the difference between the total issue price and the total par value of the bonds is the premium or discount of the bonds, which shall be amortized in effective interest method during the duration of the bonds when the interest is accrued, and treated in the principle for borrowing costs.

4.15.2 Accrued interest of bonds payable

Accrued interest is calculated on schedule according to the par value of bonds payable and stipulated interest rate, and respectively included into engineering costs or current financial expenses in the principle of capitalization of borrowing costs.

4.16 Estimated liabilities

4.16.1 Recognition criteria of estimated liabilities

Liabilities shall be recognized when the Company is involved in such contingencies as external guarantee, pending litigation or arbitration, product quality guarantee, loss making contract, restructuring obligation or asset disposal which satisfy the following conditions simultaneously:

(1) The obligation is a present obligation of the Company;

(2) The performance of such obligation is likely to result in outflow of economic benefits from the Company; and

(3) The amount of the obligation can be measured reliably.

4.16.2 Measurement method of estimated liabilities

The estimated liabilities of the Bank are initially measured as the best estimate of expenses required for the performance of relevant present obligations by considering comprehensively the risks, uncertainties, the time value of money and others with respect to contingencies. If the time value of money is significant, the best estimate shall be determined after discounting the relevant future outflow of cash. At the balance sheet date, the Company will reexamine the book value of the estimated liabilities and will make adjustment to the book value to reflect the best estimate.

4.17 Income

The Company's main income includes interest income and income from handling charges and commissions.

Interest income is recognized on the accrual basis and according to the actual interest rate or the applicable floating rate of the financial instruments at the end of accounting period. Interest income includes any discount or premium amortization, or any amortization of the difference between the initial book value of the interest–bearing tool and its amount at maturity date calculated on an effective interest rate basis. If there is objective evidence proving that the calculation of the interest income indicates little difference between the effective interest rate and nominal interest rate of the financial assets or financial liabilities, the Company adopts the nominal interest rate for measurement of interest income.

The effective interest method refers to the method to calculate the amortized cost and interest income or interest expense of financial assets and financial liabilities, in accordance with their effective interest rate. When the loan principal or interest is overdue for more than 90 days, the calculation of accrued interest income will be terminated on the original terms. However, for the financial assets for which provisions for impairment have been made, the interest income will continue to be calculated according to the future cash flows' discounted rate of the related impairment loss.

Based on the accrual basis, income from handling charges and commissions are measured and recognized at the agreed rate or the agreed amount, and recorded in current profits or losses when the related service is rendered.

4.18 Government subsidies

4.18.1 Classification of government subsidies

Government subsidies refer to the monetary assets and non–monetary assets freely obtained by the Group from the government. The government subsidies are divided into government subsidies related to assets and government subsidies related to income.

Government subsidies of the Company that are acquired to be used for acquisition and construction or that form long term assets by other means are defined as government subsidies related to assets; the remaining government subsidies are defined as government subsidies related to income. Where government documents fail to clearly define subsidy objects, the Company will divide government subsidies into those related to assets or those related to income by the following ways:

(1) Where government documents clarify specific items, the subsidies should be classified according to the relative proportion of expenditures that form assets and that are included on expenses in the budget for specific items. The proportion shall be reviewed on each balance sheet date and may be changed if necessary;

(2) Where government documents only make a general description on the purpose and fail to clarify specific items, the subsidies should be classified as government subsidies related to income.

4.18.2 Recognition time

Government subsidies shall be recognized only if the Company is able to comply with the conditions for the government subsidies, and is likely to receive the government subsidies.

4.18.3 Accounting treatment

If government subsidies are monetary assets, they shall be measured in the light of the amount received or receivable. Where government subsidies are non–monetary assets, they are measured at fair value; where the fair value cannot be reliably measured, they are measured at nominal amount.

Government subsidies related to assets shall be used to offset the book value of relevant assets or recognized as deferred income. Where such subsidies are recognized as the deferred income, they will be included in the current profit or loss in accordance with the reasonable and systematic methods within useful lives of related assets.

Government subsidies related to income that are used to recover relevant costs or losses of the Group in subsequent period are recognized as deferred income and included in the current profit or loss or offset relevant costs when relevant costs or losses are recognized; where such subsidies are used to recover relevant costs or losses incurred, they will be directly included in the current profit or loss or offset relevant costs.

For government subsidies that include subsidies related to assets and subsidies related to income, they shall distinguish the different parts for respective accounting treatment; if it is difficult to distinguish them, they shall be classified in to the governments related to income as a whole.

Government subsidies related to daily activities are included in other income or used to offset relevant costs; government subsidies irrelevant to daily activities are included in the non–operating revenue or expenditure.

4.19 Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities are calculated and recognized based on differences (temporary differences) between tax base and book value of the assets and liabilities. The deductible losses and tax deductions, which can be utilized against the future taxable income in accordance with tax law, are regarded as temporary differences and a deferred income tax asset is recognized accordingly. On the balance sheet date, the deferred income tax assets and deferred income tax liabilities shall be measured at the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

The recognition of the deferred income tax assets is limited to the taxable income that is likely to deduct the deductible temporary differences, deductible losses and tax deductions. For the recognized deferred income tax assets, the book value of the deferred income tax assets should be written down when it is expected that it is unlikely to obtain sufficient taxable income to deduct the deferred income tax assets. When it is likely to earn sufficient taxable income, the write–down amount shall be reversed.

If the Company has the legal right of netting and intends to settle in net amount or to obtain assets and discharge liabilities simultaneously, the income tax assets and income tax liabilities of the Company for the current period shall be presented based on the net amount after offset.

When the Company has the legal rights to balance income tax assets and income tax liabilities for the current period with net settlement, and deferred income tax assets and deferred income tax liabilities are related to the income tax which are imposed on the same taxpaying subject by the same tax collection authority or on different taxpaying subjects, but, in each important future period in connection with the reverse of deferred income tax assets and liabilities, the involved taxpaying subject intends to balance income tax assets and liabilities for the current period with net settlement at the time of obtaining assets and discharging liabilities, deferred income tax assets and deferred income tax liabilities shall be presented based on the net amount after offset.

4.20 Leases

The Company's leases are classified into financing leases and operating leases. When all the risks and rewards associated with the ownership of an asset are substantially transferred to the lessee, the lease is called financing lease; and leases other than that are called operating leases.

4.20.1 Operating lease

Operating leases' rental expenses shall be included in related asset costs or the current profit or loss over the lease term on a straight–line basis.

4.20.2 Financing lease

The Company recognizes the fair value of leased assets or the present value of the minimum lease payment, whichever is the lower, as the book–entry value of the leased assets, and the difference between the book–entry value and the minimum lease payment as unrecognized financing expenses. The Company amortizes the unrecognized financing expenses

over the lease term by the effective interest method. The balance of the minimum lease payments after deducting unrecognized financing expenses shall be presented as long-term payables. Provision for depreciation of fixed assets acquired under financing leases is made in accordance with the Company's policy on fixed asset depreciation.

4.21 Fair value measurement

The Company measures the relevant assets and liabilities at fair value based on the following assumptions:

4.21.1 The market participants' transaction of asset sale or liability transfer on the measurement date are the orderly trading carried out under the current market conditions.

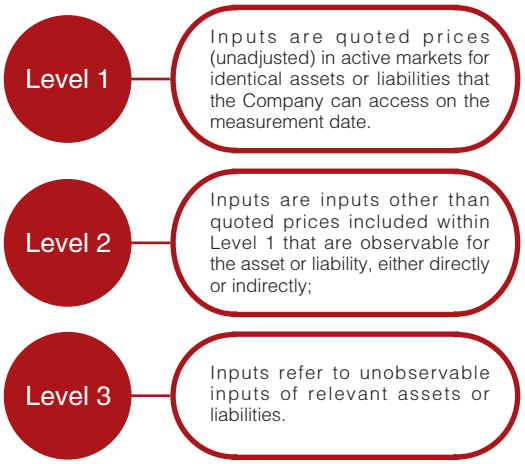
4.21.2 The asset sale or liability transfer is carried out in the main market of the relevant assets or liabilities. Where there is no main market, the Company should assume that the transaction is carried out in the most advantageous market related to the assets or liabilities.

4.21.3 The Company adopts the assumption used for realizing its utmost economic benefit when the market participants price the asset or liability.

When the Company measures non-financial assets at fair value, it should consider a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use.

When the Company uses the valuation techniques, it has considered the valuation techniques that are applicable in the current situation and are supported by enough available data and other information. The Company gives priority to the observable inputs when using valuation techniques, and those unobservable inputs are used only under the circumstance when it is impossible or unobservable inputs to obtain relevant observable inputs.

Inputs used in the fair value measurement are divided into three levels:



The level of the measurement result of fair value shall subject to the lowest level which the input that is great significance to the entire measurement of fair value belongs to.

5. Notes to adjustments for changes in accounting policies, accounting estimates and corrections of accounting errors

5.1 Changes in accounting policies during the reporting period

The Ministry of Finance promulgated "The notice on format amendment of general enterprise financial statements", applicable to the financial statements of 2018 and the year hereafter.

The major effects of the Company's implementation of the regulations are as follows:

Changes in accounting policy	Items and amounts being influenced
(1) Add 'Continous operating net profit' and 'Terminated operating net profit' in Income statement. The comparable figure is adjusted accordingly.	RMB 7,582,379,884.73 is presented in 'Continous operating net profit' for the fiscal year 2018.
(2) Reclassify the government subsidies related to the company's daily activities from non-operating income and non-operating expense to gain from disposal of assets. The comparable figure is not adjusted accordingly.	RMB 139,814.22 is presented in 'Other income' for the fiscal year 2018.

5.2 There was no change in the accounting estimates during the reporting period of the Company.

5.3 There was no correction of accounting errors in prior periods during the reporting period of the Company.

5.4 There were no adjustments of other matters during the reporting period of the Company.

6. Taxation

Income tax	According to the Law of the People's Republic of China on Enterprise Income Tax, the enterprise income tax rate applicable to the Company is 25%. Based on the proportion distributed by the head office, each branch prepays the income tax to the local tax bureau based on its total profit before tax and applicable tax rate, and the head office of the Company will make the final payments to the local tax bureau. The Company's Hong Kong Subsidiary pays the enterprise income tax to local tax bureau at the rate of 16.5% according to the Inland Revenue Ordinance of Hong Kong.
Value-added tax (VAT)	The Company implements the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (CS [2016] No. 36) issued by the Ministry of Finance and the State Administration of Taxation, and pays the VAT for the provided construction service, financial service, life service, sales of intangible assets and sales of real estate since May 1, 2016. The Company pays the VAT at VAT rate of 6% for financial service from May 1, 2016. Each branch of the Company pays its tax to the local tax bureau. In accordance with the notice on the adjustment of VAT rate No. 32 [2018] of the ministry of finance and taxation, for the VAT taxable sales or import of goods of the company, the original 17%、11% tax rate will be adjusted to 16% 、10% accordingly from May 1, 2018. For the output VAT, loan interests、fee and commission income、income from investment、major business taxable income will be paid at 6% taxrate, other business service will be paid at 16%/17% and 10%/11%. For the input VAT, the corresponding grade taxrate shall be applied according to the specific types of goods, services and real eastate purchase.
Interest withholding tax	The Singapore subsidiary of the Company's Hong Kong Subsidiary is subject to FTC preferential policies of Singapore government and is exempted from interest withholding tax.
Urban maintenance and construction tax and education surtax	The urban maintenance and construction tax of the Company was 7% of the turnover tax; the education surtax was 3% of turnover tax. Local education surtax was calculated and paid at 2% of turnover tax.
Individual income tax	Employees' individual income tax of the Company is assumed by the individuals and withheld and remitted by the Company.

7. Preparation of consolidated financial statements

7.1 Subsidiaries included in the scope of consolidated statements in 2018 Monetary Unit: USD 0'000

S.N.	Enterprise name	Level	Enterprise type	Registration place	Business nature	Registered capital	Shareholding ratio (%)	Voting rights ratio %	Investment amount	Way of acquisition
1	CNPC Finance (HK) Limited	5	Overseas subsidiary	RM1201, 12th Floor, No. 18 Central Plaza, Harbour Road, Wanchai, Hong Kong	Financial services	40,000.00 (Remark 2)	100	100	40,000.00 (Remark 2)	Established by investment
2	CNPC Finance (Dubai) Limited (Remark 1)	6	Subsidiary of overseas subsidiary	Level 108–109, Emarat Atrium Building Sheikh Zayed Road P O Box 72509 Dubai, UAE	Financial services	80.00 (Remark 3)	100	100	80.00 (Remark 3)	Established by investment
3	CNPC Finance (Singapore) Limited (Remark 1)	6	Subsidiary of overseas subsidiary	9 Batten, Road. #15–01 Straits Trading Building. Singapore 049910	Financial services	500.00 (Remark 4)	100	100	500.00 (Remark 4)	Established by investment
4	CNPC (HK) OVERSEAS CAPITAL LTD.	6	Subsidiary of overseas subsidiary	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation
5	CNPC (BVI) LIMITED	6	Subsidiary of overseas subsidiary	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation
6	CNPC Gold Autumn Limited	6	Subsidiary of overseas subsidiary	British Virgin Islands	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation
7	CNPC General Capital Limited	6	Subsidiary of overseas subsidiary	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.	Special purpose corporation	1.00 (Remark 5)	100	100	1.00 (Remark 5)	Incorporation

Remark 1: A subsidiary of Hong Kong Subsidiary of the Company.

Remark 2: Original investment is USD 400,000,000, equivalent to RMB 2,683,060,000.00.

Remark 3: Original investment is USD 800,000, equivalent to RMB 5,298,160.00.

Remark 4: Original investment is USD 5,000,000, equivalent to RMB 32,422,500.00.

Remark 5: Currency and monetary Unit: USD and RMB.

7.2 Treatment methods adopted by the parent company for the preparation of financial statements when its subsidiaries adopt the accounting policies inconsistent with those of the parent company

For overseas subsidiary enterprises that are should be included in the consolidated scope according to the Accounting Standards for Business Enterprises, the Company shall first convert the individual financial statements of such subsidiary enterprises into the financial statements presented in RMB under Note 4.7 "Accounting method and conversion method of foreign currency business" and the converted financial statements presented in RMB will serve as a basis for the preparation of the consolidated financial statements.

8. Notes to the main items of the consolidated financial statements

1

8.1 Cash and deposits in central bank

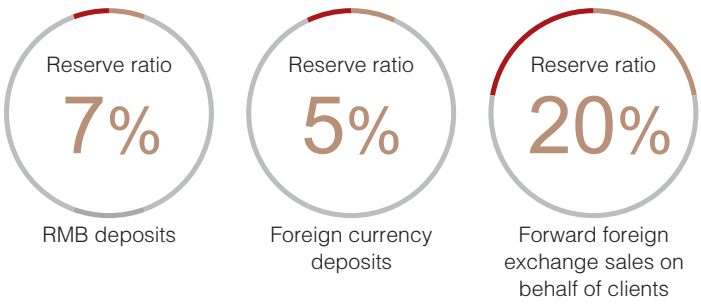
Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Cash	–	–
Including: RMB	–	–
Legal deposit reserve in the central bank	15,604,099,955.39	18,254,288,797.64
Excess deposit reserve in the central bank	3,481.91	3,456.61
Total	15,604,103,437.30	18,254,292,254.25

The Company shall make deposit reserve in the People's Bank of China at the following stated percentage and the range of deposit reserve stipulated by the relevant regulations of the People's Bank of China.

Ratio as at December 31, 2018 (%)

Ratio as at January 1, 2018 (%)



According to the relevant provisions of the Circular of the Business Management Department on Forwarding the Circular of the People's Bank of China on Decreasing Deposit Reserve Ratio of Financial Institutions (YGF [2016] No. 47), the RMB deposit reserve ratio of the Company is 7%. According to the relevant provisions in the Circular of the People's Bank of China on Increasing Foreign Currency Deposit Reserve Ratio in YF [2007] No. 134 document issued by the People's Bank of China, the foreign currency deposit reserve ratio of the Company is 5%.

According to the relevant provisions of the Circular of the People's Bank of China on Strengthening the Prudential Macro Administration of Forward Foreign Exchange Sales (YF [2015] No. 273) issued by the People's Bank of China, the Company's forward foreign exchange sales on behalf of clients shall be subject to the foreign exchange risk reserve rate of 20%.

2 8.2 Deposits with banks and other financial institutions

8.2.1 Categories on term basis

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Demand deposits	25,897,419,912.41	40,464,315,425.83
Including: refundable deposits	400,000.00	400,000.00
Term deposits maturing within three months	16,405,949,600.00	13,596,089,000.00
Term deposits maturing over three months	93,535,109,671.30	61,206,870,528.19
Total	135,838,479,183.71	115,267,274,954.02

8.2.2 Categories on the basis of the nature of financial institutions

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Deposits in state–owned commercial banks	58,761,680,042.85	40,422,770,334.59
Deposits in joint–stock commercial banks	73,639,312,737.92	58,970,342,221.77
Deposits in other financial institutions	3,437,486,402.94	15,874,162,397.66
Total	135,838,479,183.71	115,267,274,954.02

3 8.3 Financial assets held for trading

Monetary Unit: RMB

Item	Fair value as at December 31, 2018	Fair value as at January 1, 2018
Debts instrument investments – fund investment	8,709,546,374.43	3,205,414,482.02
Total	8,709,546,374.43	3,205,414,482.02

4 8.4 Derivative financial assets and derivative financial liabilities

The Company uses the following derivative financial instruments for trading purpose:

8.4.1 Interest rate swap

The interest rate swap is a financial agreement with counterparties, pursuant to which, certain nominal principal of the same currency and interests are exchanged within certain period. Only interest with different characteristics is exchanged, and there is no real exchange of principal.

8.4.2 Currency swap

Currency swap transaction refers to the contract between parties, pursuant to which, exchange at certain exchange interest rate between different currencies on the agreed date. The currency swap transactions which the company engaged in are based on the adjustment needs of different currency swap liquidity and hedging purposes.

8.4.3 Cross currency swap

Cross currency swap refers to a combination of the interest rate swap and the currency swap, is a financial contract with an exchange between different currencies and interest in different natures.

8.4.4 Derivative financial instruments

Monetary Unit: RMB

Item	Contract amount analyzed by the remaining maturity date				Fair value as at December 31, 2018	
	Within 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Assets	Liabilities
Currency swap hedging instrument	CNY 505,000,000.00	CNY 300,500,000.00	–	–	33,501,843.65	21,219,236.28
	HKD 120,000,000.00	–	–	–		
	SGD 90,000,000.00	–	–	–		
	EUR 300,000,000.00	–	–	–		
Interest rate swap hedging instrument	–	–	USD 100,000,000.00	USD 550,000,000.00	18,027,950.06	133,465,188.81
Cross currency swap hedging instrument	–	HKD 783,000,000.00	–	HKD 779,000,000.00	180,632,976.64	207,846,637.93
	–	EUR 300,000,000.00	EUR 35,000,000.00	–		
	CNY 3,880,000,000.00	–	–	–		
	–	–	–	USD 50,000,000.00		
Total	–	–	–	–	232,162,770.35	362,531,063.02

5 8.5 Financial assets purchased under resale agreements

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Bonds	–	15,310,000,000.00
Notes	–	–
Less: provision for bad debts	–	–
Book value	–	15,310,000,000.00

6 8.6 Interest receivable

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Deposits in the central bank	7,232,821.99	7,479,922.33
Deposits with banks and other financial institutions	1,705,910,187.65	895,867,770.97
Financial assets held for trading	3,577,110.61	–
Financial assets purchased under resale agreements	–	16,846,591.14
Loan	379,629,244.93	602,540,433.63
Held-to-maturity investments	163,686,308.95	71,630,410.96
Available-for-sale financial assets	312,735,982.15	221,563,923.88
Interest rate swap	38,817,800.29	24,222,584.03
Total	2,611,589,456.57	1,840,151,636.94

7

8.7 Disbursement of loans and advances

Loans and advances classified by item

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Loan	228,543,335,960.09	257,683,015,919.14
Discount	2,639,705,323.60	2,663,091,968.23
Total loans and advances	231,183,041,283.69	260,346,107,887.37
Less: provision for losses on loans	12,919,014,714.58	12,629,886,599.86
Including: provision made on single basis	1,274,280,000.00	1,307,320,000.00
Provision made on portfolio basis	11,644,734,714.58	11,322,566,599.86
Book value of loans and advances	218,264,026,569.11	247,716,221,287.51

8

8.8 Available–for–sale financial assets

Monetary Unit: RMB

Item	Balance as at December 31, 2018			Balance as at December 31, 2017		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Available–for–sale debt instruments	62,664,127,719.07	–	62,664,127,719.07	48,163,341,040.84	–	48,163,341,040.84
Available–for–sale equity instruments	261,081,272.49	154,085,281.38	106,995,991.11	1,583,958,411.31	146,961,402.54	1,436,997,008.77
Including: measured at fair value	261,081,272.49	154,085,281.38	106,995,991.11	1,583,958,411.31	146,961,402.54	1,436,997,008.77
Measured at cost	–	–	–	–	–	–
Total	62,925,208,991.56	154,085,281.38	62,771,123,710.18	49,747,299,452.15	146,961,402.54	49,600,338,049.61

9

8.9 Held–to–maturity investments

Monetary Unit: RMB

Item	Balance as at December 31, 2018			Balance as at January 1, 2018		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Bond investments (including convertible bonds)	200,000,000.00	7,000,000.00	193,000,000.00	250,000,000.00	8,750,000.00	241,250,000.00
Others	13,700,000,000.00	869,500,000.00	12,830,500,000.00	25,200,000,000.00	882,000,000.00	24,318,000,000.00
Total	13,900,000,000.00	876,500,000.00	13,023,500,000.00	25,450,000,000.00	890,750,000.00	24,559,250,000.00

10 8.10 Fixed assets

8.10.1 Classification of fixed assets

Monetary Unit: RMB

Item	Balance as at January 1, 2018	Increase in 2018	Decrease in 2018	Balance as at December 31, 2018
I. Total original book value	257,754,671.58	1,171,670.72	1,039,365.63	257,886,976.67
Including: buildings and constructions	215,251,753.42	–	–	215,251,753.42
Office equipment	29,692,281.99	1,171,670.72	1,039,365.63	29,824,587.08
Transportation facilities	12,810,636.17	–	–	12,810,636.17
II. Total accumulated depreciation	58,789,039.04	9,339,048.77	996,349.65	67,131,738.16
Including: buildings and constructions	32,812,649.66	5,005,100.34	–	37,817,750.04
Office equipment	14,952,635.65	3,778,702.43	996,349.65	17,734,988.39
Transportation facilities	11,023,753.73	555,246.00	–	11,578,999.73
III. Total net book value	198,965,632.54	–8,167,378.05	43,015.98	190,755,238.51
Including: buildings and constructions	182,439,103.76	–5,005,100.34	–	177,434,003.38
Office equipment	14,739,646.34	–2,607,031.71	43,015.98	12,089,598.69
Transportation facilities	1,786,882.44	–555,246.00	–	1,231,636.44
IV. Total provision for impairment	–	–	–	–
V. Total book value	198,965,632.54	–8,167,378.05	43,015.98	190,755,238.51
Including: buildings and constructions	182,439,103.76	–5,005,100.34	–	177,434,003.38
Office equipment	14,739,646.34	–2,607,031.71	43,015.98	12,089,598.69
Transportation facilities	1,786,882.44	–555,246.00	–	1,231,636.44

11 8.11 Intangible assets

Monetary Unit: RMB

Item	Balance as at January 1, 2018	Increase in 2018	Decrease in 2018	Balance as at December 31, 2018
Total original book value	2,145,495.65	–	–	2,145,495.65
Including: software	2,019,454.70	–	–	2,019,454.70
Land	126,040.95	–	–	126,040.95
Total accumulated amortization	1,415,476.18	396,621.19	–	1,812,097.37
Including: software	1,331,448.98	384,017.11	–	1,715,466.09
Land	84,027.20	12,604.08	–	96,631.28
Total provision for impairment	–	–	–	–
Including: software	–	–	–	–
Land	–	–	–	–
Total book value	730,019.47	–396,621.19	–	333,398.28
Including: software	688,005.72	–384,017.11	–	303,988.61
Land	42,013.75	–12,604.08	–	29,409.67

12 8.12 Deferred income tax assets and deferred income tax liabilities

8.12.1 Recognized deferred income tax assets

Monetary Unit: RMB

Item	Balance as at December 31, 2018		Balance as at January 1, 2018	
	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences
Provision for asset impairment	2,481,210,161.99	11,687,336,178.32	2,291,815,509.16	11,064,871,181.47
Employee compensation payable	4,678,744.61	18,714,978.38	4,678,744.61	18,714,978.44
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income	60,262,920.56	365,229,821.58	114,547,610.92	458,190,443.68
Total	2,546,151,827.16	12,080,215,273.04	2,411,041,864.69	11,541,776,603.59

8.12.2 Recognized deferred income tax liabilities

Monetary Unit: RMB

Item	Balance as at December 31, 2018		Balance as at January 1, 2018	
	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences
Changes in fair value of financial assets held for trading	10,243,492.94	40,973,971.75	858,915.99	3,435,663.96
Changes in fair value of available-for-sale financial assets attributable to other comprehensive income	52,989,824.13	211,959,296.53	10,028,390.41	60,778,123.70
Total	63,233,317.07	252,933,268.28	10,887,306.40	64,213,787.66

13 8.13 Other assets

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Other receivables	112,659.34	38,333.91
Handling charges and commissions receivable	11,464,320.95	23,420,025.11
Issue expenses subject to transfer	2,558,941.25	2,385,677.93
Deferred expenses	4,679,345.40	18,475,580.66
Agency business for clients	32,854,835.49	–
Re-classified housing provident funds	–	3,056.00
Securities transaction liquidation amount	102,660.48	9,244,272.21
Total	51,772,762.91	53,566,945.82

14 8.14 Borrowings from central bank

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Rediscount to the central bank	602,367,420.99	–
Total	602,367,420.99	–

15

8.15 Deposits in banks and other financial institutions

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Interbank deposits	529,390,552.42	4,980,573,034.48
Including: Bank	529,197,504.09	530,809,438.15
Other financial institutions	193,048.33	4,449,763,596.33
Total	529,390,552.42	4,980,573,034.48

16

8.16 Loans from banks and other financial institutions

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Loans from other banks	1,312,164,649.56	1,525,142,650.30
Others	67,187,790,600.00	67,955,680,000.00
Total	68,499,955,249.56	69,480,822,650.30

17

8.17 Selling and Repurchasing Financial Assets

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Stocks	220,022,172.82	–
Bills	–	–
Total	220,022,172.82	–

18

8.18 Absorption of deposits

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Demand deposits	133,348,250,943.00	157,148,537,870.07
Time deposits (including call deposits)	137,349,220,772.58	135,728,475,027.49
Guarantee deposits	–	2,633,282,600.00
Total	270,697,471,715.58	295,603,042,497.56

19

8.19 Employee compensation payable

8.19.1 Presentation of employee compensation payable

Monetary Unit: RMB

Item	Balance as at January 1, 2018	Increase in 2018	Decrease in 2018	Balance as at December 31, 2018
I. Short–term compensation	37,520,875.96	103,133,174.63	102,386,456.23	38,267,594.36
II. Post–employment benefits	–	14,415,292.25	14,415,292.25	–
Including: defined contribution plans	–	14,415,292.25	14,415,292.25	–
III. Dismissal welfare	–	–	–	–
Total	37,520,875.96	117,548,466.88	116,801,748.48	38,267,594.36

20 8.20 Taxes and surcharges payable

Monetary Unit: RMB

Item	Balance as at January 1, 2018	Increase in 2018	Decrease in 2018	Balance as at December 31, 2018
I. Domestic taxes and surcharges	245,749,647.22	2,094,620,572.22	1,717,130,341.51	623,239,877.93
Value-added tax (6%)	93,442,987.37	414,451,274.21	404,128,007.15	103,766,254.43
Urban construction and maintenance tax (7%)	6,541,009.12	29,013,546.71	28,287,517.50	7,267,038.33
Education surtax and local education surtax (5%)	4,672,149.38	20,723,961.92	20,205,369.63	5,190,741.67
Income tax (25%)	132,256,968.24	1,613,046,477.24	1,243,817,883.46	501,485,562.02
Individual income tax	5,904,945.22	8,962,256.54	10,078,371.49	4,788,830.27
Vehicle and vessel tax	–	37,270.00	37,270.00	–
Housing property tax	10,782.81	169,244.68	169,244.68	10,782.81
Urban and rural land use tax	2,867.60	45,271.20	45,271.20	2,867.60
River maintenance costs	–	–	–	–
Water conservancy construction funds	8,693.96	26,686.74	35,380.70	–
Others	2,909,243.52	8,144,582.98	10,326,025.70	727,800.80
II. Overseas taxes and surcharges	58,742,722.01	162,530,706.08	181,355,161.40	39,918,266.69
Income taxes	58,742,722.01	161,952,772.04	180,777,227.36	39,918,266.69
Individual income tax	–	575,093.75	575,093.75	–
Others	–	2,840.29	2,840.29	–
III. Taxes and surcharges payable reclassified	–	–	–	–
Including: value added tax (VAT)	–	–	–	–
Enterprise income tax	43,710,119.94	–	–	–
Total	304,492,369.23	4,514,302,556.60	3,796,971,005.82	663,158,144.62

21 8.21 Interest payable

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Accepted deposits	3,084,299,977.87	4,450,797,174.81
Loans from banks and other financial institutions	129,743,417.37	60,599,594.38
Bonds payable	165,884,973.81	171,205,569.02
Others	42,656,417.38	495,489,088.84
Total	3,422,584,786.43	5,178,091,427.05

22 8.22 Bonds payable

Bond name	Par value	Date of issuance	Term of bonds	Interest rate	Amount issued
Senior secured bonds (10 years)	USD650,000,000.00	April 28, 2011	10 years	4.50%	4,358,921,268.00
Senior secured bond (30 years)	USD500,000,000.00	April 28, 2011	30 years	5.95%	3,356,516,592.00
HK2012 USD bond (10 years)	USD500,000,000.00	April 19, 2012	10 years	3.95%	3,427,379,132.00
HK2013 USD bond (5 years)	USD500,000,000.00	April 16, 2013	5 years	1.95%	3,267,100,000.00
HK2013 USD bond (10 years)	USD750,000,000.00	April 16, 2013	10 years	3.40%	5,145,649,884.00
HK2014 USD bond (5 years)	USD750,000,000.00	May 14, 2014	5 years	2.75%	5,105,551,638.00
HK–EMTN2014 (5years, fixed)	USD700,000,000.00	November 25, 2014	5 years	3.00%	4,778,633,400.80
Commercial notes	USD 2,200,000,000.00	–	Within 1 year	–	–
Total	USD 6,550,000,000.00	–	–	–	26,172,651,914.80

23 8.23 Other liabilities

Monetary Unit: RMB

Item	Balance as at December 31, 2018	Balance as at January 1, 2018
Deferred income	1,389,651.64	31,797,812.60
Receivings from vicariously traded securities	6,058.00	6,058.00
Other payables	35,506,032.10	87,355,031.04
Total	36,901,741.74	119,158,901.64

24 8.24 Paid–in capital

Monetary Unit: RMB

Name of investor	Book balance as at January 1, 2018		Increase in 2018	Decrease in 2018	Book balance as at December 31, 2018	
	Investment amount	Proportion (%)			Investment amount	Proportion (%)
CNPC	3,332,500,000.00	40.00	–	–	3,332,500,000.00	40.00
PetroChina Company Limited	2,666,000,000.00	32.00	–	–	2,666,000,000.00	32.00
CNPC Capital Company Limited	2,332,750,000.00	28.00	–	–	2,332,750,000.00	28.00
Total	8,331,250,000.00	100.00	–	–	8,331,250,000.00	100.00

Monetary Unit: RMB

	Balance as at January 1, 2018	Bonds issued in 2018	Interest withdrawn by par value	Premium and discount amortization	Principal repaid in 2018	Other changes	Balance as at December 31, 2018
	4,214,695,964.15	–	35,131,005.00	–253,120,873.82	–	–30,635,460.04	4,437,181,377.93
	3,208,125,135.86	–	35,731,535.00	–164,877,627.76	–	–760,104.52	3,372,242,659.10
	3,257,121,810.91	–	27,109,640.00	–321,441,241.64	–	–155,018,605.89	3,423,544,446.66
	3,266,537,978.56	–	–	4,664,842.05	3,144,200,000.00	–117,673,136.51	–
	4,815,437,654.03	–	36,460,750.00	–482,504,675.16	–	–278,761,598.96	5,019,180,730.23
	4,882,756,322.79	–	18,480,595.81	–494,291,227.01	–	–234,669,470.81	5,142,378,078.99
	4,556,569,508.66	–	12,971,448.00	–454,352,587.99	–	–215,372,911.29	4,795,549,185.36
	14,375,414,297.50	581,123,898,772.39	–	–	573,227,255,514.13	–	22,272,057,555.76
	42,576,658,672.46	581,123,898,772.39	165,884,973.81	978,302,979.47	576,371,455,514.13	–1,032,864,917.22	48,462,134,034.03

25

8.25 Capital reserves

Monetary Unit: RMB

Item	Balance as at January 1, 2018	Increase in 2018	Decrease in 2018	Balance as at December 31, 2018
I. Capital (share capital) premium	24,431,326,500.00	–	–	24,431,326,500.00
II. Other capital reserves	1,239,660.00	–	–	1,239,660.00
1. Changes in other equities of investees	–	–	–	–
2. Unvested share–based payment	–	–	–	–
3. Gains or losses on hedges of net investment in an overseas operation	–	–	–	–
4. Others	1,239,660.00	–	–	1,239,660.00
III. Transfer–in of capital reserve of original system	–	–	–	–
Total	24,432,566,160.00	–	–	24,432,566,160.00

26

8.26 Surplus reserves

Monetary Unit: RMB

Item	Balance as at January 1, 2018	Increase in 2018	Decrease in 2018	Balance as at December 31, 2018	Reason and basis for changes
Statutory surplus reserves	5,635,145,122.34	752,200,760.35	–	6,387,345,882.69	10% of net profit
Discretionary surplus reserve	5,916,136,043.45	752,200,760.35	–	6,668,336,803.80	10% of net profit
Foreign currency risk reserves	1,124,912,238.25	326,992,917.73	–	1,451,905,155.98	*
Total	12,676,193,404.04	1,831,394,438.43	–	14,507,587,842.47	–

* Foreign currency risk reserve is provided in USD at 10% of profit after tax generated from foreign currency operations.

27 8.27 General risk reserve

Monetary Unit: RMB

Balance as at December 31, 2018	Balance as at January 1, 2018
6,823,789,798.964	7,041,716,146.24

General risk reserve before year 2012 (excluded) was provided at 1% of the net profit, while the notice on issuing the Administrative Measures for the Provision of Reserves of Financial Enterprises (CJ [2012] No. 20) requires that from year 2012, "general reserve balance of financial enterprises shall not be lower than 1.5% of the ending balance of the risk assets in principle" and "that if it is difficult for financial enterprises to provide general reserve balance at that ratio at one stroke, they can provide by installment in no more than five years in principle". According to that document, the general risk reserves of the Company from year 2012 to year 2016 are required to account for 0.47%, 0.73%, 0.98%, 1.24%, 1.5% and 1.5% of the ending balance of risk assets. In fact, as at December 31, 2016 and as at December 31, 2017, according to its resolutions of the meeting of the Board of Directors, the accumulative general risk reserve actually provided by the Company accounted for 1.5% of the ending balance of risk assets.

28 8.28 Undistributed profits

Monetary Unit: RMB

Item	Amount
Balance as at January 1, 2018	7,534,282,514.14
Increase in 2018	7,721,655,980.05
Including: net profit transferred in 2018	7,721,655,980.05
Other transfer–in	–
Decrease in 2018	–
Including: surplus reserves withdrawn in 2018	1,831,394,438.43
General risk reserves withdrawn in 2018	–78,650,251.96
Cash dividends distributed in 2018	1,876,768,257.37
Distribution to supporting enterprises in 2018	30,617,291.43
Other decreases	–
Balance as at December 31, 2018	11,595,808,758.92

9. Contingencies

As at December 31, 2018, the Company issued letters of guarantee for the following member companies of CPNC to provide guarantee. Balance of letters of guarantee issued in RMB was RMB 124,112,924.46, in which RMB 82,423,695.95 expired on December 31, 2018; balance of letters of guarantee issued in USD was USD 71,957,900.00, in which USD 97,300.00 expired on December 31, 2018.

10. Events after the balance sheet date

There were no post balance sheet events required to be disclosed by the Company.

COMPANY INFORMATION

Ⅰ Composition of the New Board of Directors	Chairman	Liu De
	Deputy Chairman	Lan Yunsheng
	Directors	Wang Zengye, Ma Xiaofeng, Zhou Jianming, Wang Xueqing, Wang Hua, Miao Yong, Gao Wei, Xie Xingxiang, Jing Lin
Ⅱ Composition of the New Board of Supervisors	Chief Supervisor	Pan Chenggang
	Supervisors	Tong Tianxi, Fang Wu, Liu Zhiqiang, Wang Liping, Yan Ye, Huang Liping
Ⅲ Senior Executives	Secretary of Party Committee	Liu De
	General Manager	Wang Zengye
	Deputy GM	Liao Xiaoyan, Jing Lin
	GM Assistants	Wu Lincai, Hao Binbin, Cai Wenhao, Cui Bin

Ⅳ Legal Counsel

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Ⅵ Contact Information of Branches

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Zip Code: 163002
Shenyang Branch
Address: No. 10, Liaohe Street, Huanggu District, Shenyang, Liaoning Province
Zip Code: 100032
Jilin Branch
Address: Dongduan Trade Mansion, Tongtan Avenue, Changyi District, Jilin, Jilin Province
Zip Code: 132002
Xi'an Branch
Address: Guandao Beiqu, Fengcheng Road, Weiyang District, Xi'an, Shanxi
Zip Code: 710018
HK Subsidiary Company
Address: Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong

Note: China Petroleum Finance Co., Ltd. convened the 39th shareholder meeting and the first meeting of the 7th Board of Directors on December 12, 2018 for the reelection of directors and supervisors. On the meetings, Liu De was elected as Chairman, Lan Yunsheng was elected as Vice Chairman and Wang Zengye was appointed as General Manager. The Company is going through the approval on the appointment of the directors and senior executives.

中油财务有限责任公司
China Petroleum Finance Company Limited

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