THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in **PetroChina Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker, licensed securities dealer or other agent through whom the sale was effected for delivery to the purchaser.

中 國 石 油 天 然 氣 股 份 有 限 公 司

PETROCHINA COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 857)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2021 TO 2023

IMPORTANT NOTICE: PLEASE NOTE THAT THE SOLE PURPOSE OF DISTRIBUTING THIS CIRCULAR IS TO PROVIDE THE SHAREHOLDERS OF PETROCHINA COMPANY LIMITED WITH INFORMATION REGARDING THE RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2021 TO 2023, SO THAT THE SHAREHOLDERS OF PETROCHINA COMPANY LIMITED MAY MAKE AN INFORMED DECISION ON VOTING IN RESPECT OF THE RESOLUTIONS TO BE PROPOSED AT THE EGM.

A notice convening the extraordinary general meeting to be held at Talimu Petroleum Hotel, 5 Beishatan, Chaoyang District, Beijing, the PRC at 9:00 a.m. on 5 November 2020 is set out on pages 82 to 84 of this circular. A form of proxy for use in connection with the EGM is enclosed herewith. Whether or not you are able to attend the EGM, please complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (*i.e.*, by not later than 9:00 a.m., on Wednesday, 4 November 2020). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

15 September 2020

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In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"2017 Buildings Leasing Agreement"	the new buildings leasing agreement entered into by the Company and CNPC on 24 August 2017
"A Shares"	the ordinary shares issued by the Company to domestic investors for subscription and trading and denominated in Renminbi
"ADS(s)"	the American Depository Share(s) issued by the Bank of New York as the depository bank and listed on the New York Stock Exchange, with each ADS representing 100 H Shares
"Amended Buildings Leasing Contract"	the amended buildings leasing contract entered into between the Company and CNPC on 25 August 2011
"Articles of Association"	articles of association of the Company
"associate(s)"	has the meanings ascribed to it under the HKEx Listing Rules
"Board"	the board of directors of the Company
"Buildings Leasing Contract"	the buildings leasing contract dated 10 March 2000 entered into between the Company and CNPC pursuant to which CNPC has leased to the Company buildings located throughout the PRC for the use by the Company for its business operation including the exploration, development and production for a term of 20 years, as amended by a supplemental agreement dated 26 September 2002
"CNPC"	China National Petroleum Corporation (中國石油天然氣集團有限公司), a state-owned enterprise incorporated under the laws of the PRC, and the controlling shareholder of the Company, and for the purpose of this circular, unless otherwise specified, shall include other subsidiaries and units of CNPC (including subsidiaries, branches and relevant units) other than the Group
"CNPC Finance"	China Petroleum Finance Company Limited (中油財務有限責任公司), owned as to 40% by CNPC, 32% by the Company and 28% by CNPC Capital Company Limited

"Company"	PetroChina Company Limited, a joint stock company limited by shares incorporated in the PRC on 5 November 1999 under the PRC Company Law, the H shares of which are listed on the Hong Kong Stock Exchange with the ADS(s) listed on the New York Stock Exchange and the A shares are listed on the Shanghai Stock Exchange
"Comprehensive Agreement"	the comprehensive products and services agreement dated 24 August 2017 entered into between CNPC and the Company regarding the provision by the Group to CNPC/Jointly-held Entities and by CNPC/Jointly-held Entities to the Group, of a range of products and services from time to time, coming into effect on 1 January 2018 and effective for 3 years
"connected person"	has the meanings ascribed to it under the HKEx Listing Rules
"Continuing Connected Transactions"	the continuing connected transactions which have been and will continue to be entered into between the Group and CNPC/Jointly-held Entities, details of which are set out in the Letter from the Board of this circular
"controlling shareholder"	has the meanings ascribed to it under the HKEx Listing Rules
"Director(s)"	directors of the Company
"Extraordinary General Meeting" or "EGM"	an extraordinary general meeting of the Company to be held at Talimu Petroleum Hotel, 5 Beishatan, Chaoyang District, Beijing, PRC at 9:00 a.m. on 5 November 2020 to approve, among other things, the New Comprehensive Agreement, the Non-Exempt Continuing Connected Transactions and their proposed annual caps
"Group"	the Company and its subsidiaries
"H Share(s)"	the overseas-listed foreign share(s) in the Company's share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and subscribed for in Hong Kong dollars, and which include the H Share(s) and the underlying ADS(s)
"HKEx Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent committee of the Board, comprising Ms. Elsie Leung Oi-sie, Mr. Tokuchi Tatsuhito, Mr. Simon Henry, Mr. Cai Jinyong and Mr. Jiang, Simon X., the independent non-executive Directors of the Company, established for the purpose of reviewing and advising the Independent Shareholders in respect of the New Comprehensive Agreement, the Non-Exempt Continuing Connected Transactions and the relevant proposed annual caps
"Independent Financial Advisor" or "ICBC International"	ICBC International Capital Limited (工銀國際融資有限公司), a licensed corporation carrying out Type 1 (dealing in securities) , Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial advisor appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and the relevant proposed annual caps in connection with the Non-Exempt Continuing Connected Transactions
"Independent Shareholders"	the shareholders of the Company other than CNPC and its associates
"Jointly-held Entity(ies)"	A company in which the Company and CNPC jointly hold shares while CNPC and/or its subsidiaries (individually or together) is/are entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of such company
"Kunlun Leasing"	Kunlun Financial Leasing Co., Ltd. (昆侖金融租賃有限責任公司), a company incorporated in the PRC with limited liability, which is a subsidiary of CNPC
"Land Use Rights Leasing Contract"	the land use rights leasing contract dated 10 March 2000 entered into between the Company and CNPC pursuant to which CNPC has leased to the Company parcels of land situated in different places over the PRC in connection with and for the purpose of all aspects of the operations and business of the Group for a term of 50 years

"Latest Practicable Date"	8 September 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
"New Comprehensive Agreement"	the comprehensive products and services agreement dated 27 August 2020 entered into between CNPC and the Company regarding the provision by the Group to CNPC/Jointly-held Entities and by CNPC/Jointly-held Entities to the Group, of a range of products and services from time to time which shall come into effect on 1 January 2021 for a term of three years
"Non-Exempt Continuing Connected Transactions"	the Continuing Connected Transactions under the categories of (1)(a), (2)(a), (2)(b) and 2(e)(i), as set out in the section headed "2. Continuing Connected Transactions under the New Comprehensive Agreement" in the Letter from the Board as set out in this circular
"PRC" or "China"	the People's Republic of China (for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region and Taiwan)
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Shanghai Stock Exchange"	The Shanghai Stock Exchange
"Share(s)"	shares of the Company, including the A Share(s) and the H Share(s)
"Shareholder(s)"	holder(s) of Shares of the Company
"subsidiaries"	has the meanings ascribed to it under the HKEx Listing Rules
"substantial shareholder(s)"	has the meanings ascribed to it under the HKEx Listing Rules
"Supervisor(s)"	supervisors of the Company
"Supervisory Committee"	the supervisory committee of the Company

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PETROCHINA COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 857)

Board of Directors:
Dai Houliang *(Chairman)*
Li Fanrong *(Vice Chairman)*
Liu Yuezhen
Lv Bo
Jiao Fangzheng
Duan Liangwei
Elsie Leung Oi-sie*
Tokuchi Tatsuhito*
Simon Henry*
Cai Jinyong*
Jiang, Simon X.*

* *Independent non-executive Directors*

Legal address:
World Tower 16 Andelu
Dongcheng District
Beijing 100011
PRC

Office Address:
China Petroleum Building
9 Dongzhimen North Street
Dongcheng District
Beijing 100007
PRC

15 September 2020

To the Shareholders

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2021 TO 2023

Reference is made to the announcement of the Company dated 27 August 2020 in relation to the renewal of Continuing Connected Transactions in respect of 2021 to 2023. The purpose of this circular is to provide you with information in relation to the renewal of Continuing Connected Transactions in respect of 2021 to 2023 to enable you to make an informed decision on voting in respect of the resolutions to be proposed at the EGM.

1. BACKGROUND

Reference is made to the announcement of the Company dated 24 August 2017 in respect of the renewal of the continuing connected transactions with CNPC/Jointly-held Entities. At the extraordinary general meeting of the Company held on 26 October 2017, the independent shareholders approved the continuing connected transactions with CNPC/Jointly-held Entities and the annual caps for the three years ending 31 December 2020.

The Company and CNPC entered into (1) the New Comprehensive Agreement and (2) a confirmation letter to the Land Use Rights Leasing Contract and the 2017 Buildings Leasing Contract on 27 August 2020 to continue the Continuing Connected Transactions after 31 December 2020 and the Company will continue to comply with the provisions of Chapter 14A of the HKEx Listing Rules in relation to the Continuing Connected Transactions including the reporting, announcement, annual review and independent shareholders' approval requirements, if applicable.

2. HKEX LISTING RULES IMPLICATION

The Continuing Connected Transactions mainly comprise:

(1) (a) Products and services to be provided by the Group to CNPC/Jointly-held Entities

(b) Financial services to be provided by the Group to Jointly-held Entities

(2) (a) Engineering technology services to be provided by CNPC to the Group

(b) Production services to be provided by CNPC to the Group

(c) Material supply services to be provided by CNPC to the Group

(d) Social and living support services to be provided by CNPC to the Group

(e) Financial services to be provided by CNPC/Jointly-held Entities to the Group

(i) Aggregate of the maximum daily amount of deposits made by the Group with CNPC and the total amount of interest received in respect of these deposits

(ii) Insurance, fees and expenses for entrustment loans, settlement services and other intermediary services provided by CNPC to the Group

(iii) Maximum outstanding daily balance (including the outstanding lease principal, rentals, pre-leasing/leasing interest and other fees) due by the Group to Kunlun Leasing in respect of the financial leasing services provided by Kunlun Leasing to the Group

(iv) Loans and other financial assistance provided by CNPC/Jointly-held Entities to the Group

(f) Land lease provided by CNPC to the Group

(g) Buildings lease provided by CNPC to the Group

The implications of the aforementioned Continuing Connected Transactions under the HKEx Listing Rules are as below:

(1) Under the HKEx Listing Rules, (2)(e)(iv) loans and other financial assistance to be provided by CNPC/Jointly-held Entities to the Group, being financial assistance provided by a connected person for the benefit of the listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted in respect thereof, is fully exempt from shareholders' approval, annual review and all disclosure requirements set out in Chapter 14A of the HKEx Listing Rules, pursuant to the Rule 14A.90 of the HKEx Listing Rules.

(2) Under the HKEx Listing Rules, the following categories of Continuing Connected Transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements, as each of the percentage ratios under Rule 14.07 of the HKEx Listing Rules (other than the profits ratio), where applicable, in relation of each of these categories is, on an annual basis, expected to be less than 5% under Rule 14A.76(2) of the HKEx Listing Rules:

(1)(b) Financial services to be provided by the Group to Jointly-held Entities

(2)(c) Material supply services to be provided by CNPC to the Group

(2)(d) Social and living support services to be provided by CNPC to the Group

(2)(e)(ii) Insurance, fees and expenses for entrustment loans, settlement services and other intermediary services provided by CNPC to the Group

(2)(e)(iii) Maximum outstanding daily balance (including the outstanding lease principal, rentals, pre-leasing/leasing interest and other fees) due by the Group to Kunlun Leasing in respect of the financial leasing services provided by Kunlun Leasing to the Group

(2)(f) Land lease provided by CNPC to the Group

(2)(g) Buildings lease provided by CNPC to the Group

(3) Under the HKEx Listing Rules, the following transactions are Non-Exempt Continuing Connected Transactions which are subject to the reporting, announcement and Independent Shareholders' approval requirements:

(1)(a) Products and services to be provided by the Group to CNPC/Jointly-held Entities

(2)(a) Engineering technology services to be provided by CNPC to the Group

(2)(b) Production services to be provided by CNPC to the Group

(2)(e)(i) Aggregate of the maximum daily amount of deposits made by the Group with CNPC and the total amount of interest received in respect of these deposits

3. CONTINUING CONNECTED TRANSACTIONS UNDER THE NEW COMPREHENSIVE AGREEMENT

3.1 New Comprehensive Agreement

The Company and CNPC entered into the Comprehensive Agreement on 24 August 2017, which was effective from 1 January 2018, valid for a term of three (3) years, and will expire on 31 December 2020, for the provisions (1) by the Group to CNPC/Jointly-held Entities and (2) by CNPC/Jointly-held Entities to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its subsidiaries and relevant units (including their respective subsidiaries, branches and other units). Therefore, on 27 August 2020, the Company and CNPC entered into the New Comprehensive Agreement, and the material terms are as follows:

(1) Products and services to be provided by the Group to CNPC/Jointly-held Entities

(a) Products and services including those relating to refined oil products, chemical products, natural gas, crude oil, supply of water, supply of electricity, supply of gas, supply of heating, quantifying and measuring, entrusted operation, material supply and other products and services as may be requested by CNPC/Jointly-held Entities for its own consumption, use or sale from time to time; and

(b) Financial services provided by the Group to Jointly-held Entities, including entrustment loans, guarantees and other financial services.

(2) Products and services to be provided by CNPC/Jointly-held Entities to the Group

The products and services to be provided by CNPC/Jointly-held Entities to the Group are expected to be more numerous, both in terms of quantity and variety, than those to be provided by the Group to CNPC/Jointly-held Entities. They have been grouped together and categorised according to the following types of products and services:

(a) Engineering technology services, mainly associated with products and services to be provided at the stage, including but not limited to exploration technology service, downhole operation service, oilfield construction service, refinery construction service and engineering design service;

(b) Production services, mainly associated with products and services to be provided, arising from the day-to-day operations of the Group, including but not limited to crude oil, natural gas, refined oil products, chemical products, water supply, electricity supply, gas supply and communications;

(c) Material supply services, mainly involving the agency services on the procurement of materials, including but not limited to purchase of materials, quality examination, storage of materials and delivery of materials, which by virtue of its nature, are not covered in the engineering technology services and production services referred to above;

(d) Social and living support services, including but not limited to security system services, staff canteens and training centers etc.; and

(e) Financial services, including loans and other financial assistance, deposits services, entrustment loans, settlement services, financial leasing services and other financial services.

3.2 General principles

The New Comprehensive Agreement requires in general terms that:

- the quality of products and services to be provided should be satisfactory to the recipient;

- the price at which such products and services are to be provided must be fair and reasonable; and

- the terms and conditions on which such products and services are to be provided should be no less favourable than those offered by independent third parties.

3.3 Pricing determination

Pricing principles for Non-Exempt Continuing Connected Transactions

(a) Products and services provided by the Group to CNPC/Jointly-held Entities: pricing principles include government-prescribed pricing and market-oriented pricing;

(b) Engineering technology services provided by CNPC Entities to the Group: pricing principles include government-prescribed pricing, market-oriented pricing (which includes tender prices) and agreed contractual price;

(c) Production services provided by CNPC to the Group: pricing principles include government-prescribed pricing plus diversion cost (if any), market-oriented pricing, agreed contractual price and cost; and

(d) Deposit service provided by CNPC to the Group: pricing principles include government-prescribed pricing and market-oriented pricing.

The New Comprehensive Agreement details specific pricing principles for the products and services to be provided pursuant to the New Comprehensive Agreement. The pricing determination of the New Comprehensive Agreement remains consistent with that of the Comprehensive Agreement. If, for any reason, the specific pricing principle for a particular product or service ceases to be applicable, whether due to a change in circumstances or otherwise, such product or service must then be provided in accordance with the following general pricing principles:

(a) government-prescribed price (this applies to products and services such as refined oil products, natural gas, refinery and chemical facilities construction, water supply, electricity supply, gas supply and heat supply (plus diversion costs in respect of supply of water, electricity, gas and heat)); or

(b) where there is no government-prescribed price, then according to the relevant market-oriented prices (at present, this applies to engineering design, project monitoring and management, products and services such as crude oil, chemical products, asset leasing, repair of machinery, transportation, purchase of material, quantifying and measuring and entrusted operation, etc.); or

(c) where neither (a) nor (b) is applicable, then according to:

(i) the actual cost incurred (at present, this applies to products and services such as book information and partial filing storage, maintenance of roads); or

(ii) the agreed contractual price, being the actual cost for the provision of such product or service plus an addition of not more than:

(1) 15 per cent of the cost for certain engineering technology services (at present, this applies to products and services such as geophysical prospecting, drilling, well cementing, logging, mud logging, well testing and oilfield construction) provided that, such agreed contractual price shall not be higher than the prices available for the provision of such products and services in the international market; and

(2) 3 per cent of the cost for all other types of products and services priced (at present, this applies to products and services such as downhole operations, equipment maintenance and repair, equipment antiseptic testing and research, technical services, communications, firefighting, quality inspection, storage of materials, delivery of materials and training centres).

As a commitment to the investors, the Company has set caps of profit margin in light of the prevailing market circumstances as at the time of the Company's listing, and the caps of profit margin have remained unchanged since then. Based on the past business performance and with reference to the margin of profit before tax of the similar business of more than two comparable companies in market, the Company is of the view that these caps are fair and reasonable and therefore are still in the interests of the Company and its Shareholders as a whole in the present circumstances.

In order to ensure the reasonableness and accuracy of the actual cost for the relevant products and services, the transaction parties under the Company and CNPC will generally negotiate the cost for the products and services to be provided in advance. The cost will be determined based on the number of consumed units and unit price. The number of consumed units will be determined by the parties according to the cost-efficient level or the average level of similar projects in history. The unit price will be determined by the parties with reference to the market-oriented price for cost. Meanwhile, the Company and CNPC have jointly set up a construction cost center comprised by experienced technical experts, which is responsible for the formulation of the cost standards for certain engineering technology services provided by CNPC according to the above-mentioned mechanism. After the provision of relevant products or services, the internal auditors of the Group will review the actual cost of these products or services prepared by CNPC with reference to the negotiation results prior to the transactions or the cost standards formulated by the construction cost center. The settlement and payment shall only be made after the review is approved by the internal auditors.

(d) with regards to certain special products and services, the following pricing principles are adopted:

(i) for public engineering services (means engineering service in relation to oil regions, factory roads, municipal facilities, civil construction and public facilities), in accordance with the set quotas and pricing standards (the quotas specified by the People's Government of respective provinces, autonomous regions or municipalities) if the same have been set uniformly by the government; and via public tendering if no such quotas and pricing standards have been set;

(ii) for security system services, the price shall not be more than the Company's actual expense incurred on security system in 1998;

(iii) for educational, medical and cultural promotional services, reasonably proportioned between the Company and CNPC with reference to CNPC's actual expenses incurred on educational, medical and cultural promotional service and the share of benefits between the Company and CNPC in 1998; prices for subsequent periods shall not be more than the Company's share of expenses as calculated in accordance with the aforementioned formula in 1998, and shall decrease progressively; and

(iv) retirement management and re-employment service centre, reasonably proportioned between CNPC and the Company with reference to the cost for such services and the share of benefits between CNPC and the Company, and shall decrease progressively.

The definition of "government-prescribed price" refers to the price in respect of certain category of services determined by the laws, regulations, decisions, orders or policies, etc. enacted by governments of the relevant countries or regions (including but not limited to the central government, federal government, provincial government, state or coalition government or any organisation responsible for domestic ruling and foreign affairs in respect to certain specified territory, irrespective of its name, organisation or form) or other regulatory departments.

The "government-prescribed price" for different products and services is determined with reference to the following:

Type of product/service with "government-prescribed prices"	Basis for price determination
Refined oil products	According to the Notice of the National Development and Reform Commission on Further Improving the Pricing Mechanism of Refined Oil (Fa Gai Jia Ge [2016] No. 64) issued by the National Development and Reform Commission on 13 January 2016, the retail price and wholesale price of gasoline and diesel, as well as the supply price of gasoline and diesel, to special users such as social wholesale enterprises, railway and transportation, etc., shall be government-guided prices. The supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps shall be government-prescribed prices. The price of gasoline and diesel may be adjusted every ten working days with reference to the changes in the international market price of crude oil. The National Development and Reform Commission publishes the maximum retail price in ton of standard gasoline and diesel, and the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps on its portal website. The provincial price authorities shall publish the highest wholesale prices and highest retail prices of gasoline and diesel standard products and non-standard products in their regions on the designated websites.

Type of product/service with "government-prescribed prices"	Basis for price determination
Natural gas	According to the Circular of the National Development and Reform Commission on the Adjustment of Natural Gas Prices (Fa Gai Jia Ge [2013] No. 1246) issued by the National Development and Reform Commission on 28 June 2013, the price management of natural gas is adjusted to the gate station. At present, the National Development and Reform Commission divides the natural gas which implements the gate station price policy into two categories: (1) Natural gas which implements market-adjusted price, including unconventional gases such as shale gas, coal-bed methane and coal gas, and domestic offshore natural gas supplied to the market; imported gas supplied to the market through imported LNG and imported pipeline gas projects put into operation after the end of 2014; natural gas supplied to the market through gas storages and trading platforms such as Shanghai Petroleum and Natural Gas Exchange and Chongqing Petroleum and Natural Gas Exchange; natural gas supplied to LNG manufacturers, fertilizer manufacturers and other direct-supply industrial enterprises, etc. (2) Natural gas which implements government-guided price. For the natural gas that does not meet the above conditions on implementing government-guided price, the base price of the gate station in each province shall be the basis and the exact price shall be negotiated by the supplying party and the requisitioning party without exceeding the specified range (i.e. up to 20% and down unlimited). The natural gas which implements the government-guided price mainly consists of onshore domestic conventional natural gas supplied to city gas companies and pipeline natural gas imported through the imported pipeline gas project put into operation before the end of 2014.

Type of product/service with "government-prescribed prices"	Basis for price determination
Refinery and chemical facilities construction (including construction and installation)	For the construction phase, prices shall be determined by standards prescribed by the People's Government of the respective province, autonomous region and municipalities. For the installation phase, prices shall be determined by industrial standards.
Water supply	In accordance with the National Guidelines on Water Tariffs, issued by the former National Planning Committee and the former Ministry of Construction on 23 September 1998 and revised by the National Development and Reform Commission and the former Ministry of Construction on 29 November 2004, the urban water supply price shall be government-prescribed prices, and the specific pricing authority shall be executed based on the price management catalogue.
Electricity supply	In line with the Electricity Law issued by Standing Committee of the National People's Congress on 28 December 1995 and revised on 27 August 2009, 24 April 2015 and 29 December 2018, for the power purchase price of a power network spanning different provinces, autonomous regions, or municipalities, as well as in a provincial power network, a proposal shall be made through consultation by the enterprises engaged in power production and power network operation, and shall be examined and approved by the pricing administrative department of the State Council. The on-grid electricity price in an independent power network shall be negotiated and proposed by the power production enterprise and the power network operating enterprise, and submitted to the pricing administrative department with management authority for approval. For the power produced by locally funded power production enterprises, if an independent power network within different regions of the province is formed or the power is generated for local use, the price shall be under the control of the People's Government of the province, autonomous region or municipality.

Type of product/service with "government-prescribed prices"	**Basis for price determination**
Gas supply	According to the Regulation on the Administration of Urban Gas (PRC State Council Order No. 666 issued by the State Council on 19 October 2010 and revised on 6 February 2016), the pricing bureau of the People's Government above the county level could prescribe and adjust the selling price for pipeline gas.
Heat supply	Prices for the supply of heat are prescribed by the local governments.

Save as disclosed above, the macro government-prescribed prices are updated in accordance with the development of national economy and policies to be issued from time to time. The prices prescribed by the People's Government of the respective provinces, autonomous regions and municipalities are updated from time to time in accordance with the local actual situations from time to time. The Company has paid and will continue to pay close attention to the updates of government-prescribed prices and determine the prices for relevant products and services accordingly.

The definition of "market-oriented price" refers to the price determined in accordance with the following order:

(i) with reference to the price charged, by at least two independent third parties, in areas where such type of product or service is provided and on normal terms in the area where the product or service of comparable scale is being provided at that time; or

(ii) with reference to the price charged, by at least two independent third parties, in nearby areas where such type of product or service is provided and on normal terms in the area or country adjacent to the area where the product or service of comparable scale is being provided at that time.

According to the regulations for the management of bidding and tendering of the Company, in terms of the product or service of which the transaction amount reaches the particular standard prescribed in regulations, the Company shall obtain the above-mentioned market-oriented prices through tendering and the final suppliers of products or services are determined based on the price quotations and other factors including quality of products and services, specific needs of the transaction parties, technical advantages of the suppliers, performance capabilities of the suppliers, and qualification and relevant experience of the suppliers. The operating entities or the tendering center of the Company are responsible for the preparation of tendering requirement documents. A tendering committee comprised by both internal and external randomly picked experts will be established to conduct the tendering process for each project. If the terms offered by CNPC are considered to be comparable to or better than other bidders by the tendering committee after taking into consideration the above-mentioned factors, CNPC will be selected as the supplier. In terms of the product and service of which the transaction amount is lower than the particular standard prescribed in regulations, the Company shall obtain the above-mentioned market-oriented prices by inviting suppliers to the competitive negotiations and the final suppliers of products or services are determined based on the price quotations and other factors including quality of products and services, specific needs of the transaction parties, technical advantages of the suppliers, performance capabilities of the suppliers, and qualification and relevant experience of the suppliers. The relevant departments of the operating entities to which the products or services will be supplied shall be responsible for comparing the terms of these suppliers. If the terms offered by CNPC are considered to be comparable to or better than other suppliers by the such department after taking into consideration the above-mentioned factors, CNPC will be selected as the supplier upon the final approval by the management team of the operating entity.

Further, the New Comprehensive Agreement specifically stipulates that:

(i) for the financial services provided by the Group:

- the pricing of entrusted loans shall be determined based on the relevant interest rate and standard for fees as promulgated by the People's Bank of China and with reference to market-oriented price;

- the guarantees shall be provided with reference to the market-oriented price; and

- the pricing of other financial services shall be determined based on the prices prescribed by government authorities including, among others, People's Bank of China, China Banking and Insurance Regulatory Commission, and the fee charging standards published by the aforementioned relevant regulatory authorities and with reference to the market-oriented price.

(ii) for the financial services provided by CNPC/the Jointly-held Entities:

- the loans and deposit services shall be provided at prices determined in accordance with the relevant interest rate and standard for fees as promulgated by the People's Bank of China. Such prices must also be no less favourable to the Group than those offered by other independent third parties;

- the guarantees shall be provided at prices not higher than the fees charged by the state policy banks in relation to the provision of guarantees. References must also be made to the relevant government-prescribed price and market-oriented price; and

- the pricing of other financial services shall be determined based on the prices prescribed by government authorities including, among others, People's Bank of China, China Banking and Insurance Regulatory Commission, and the fee charging standards published by the aforementioned relevant regulatory authorities and with reference to the market-oriented price.

For the financial leasing service provided by CNPC, payments due from the Company shall include rental payable, pre-leasing interest and leasing service fees, etc. Rental payable and pre-leasing interest shall be calculated with reference to the lease principal and the leasing interest rate. Leasing interest rate shall be determined by reference to the benchmark annual lending rate as promulgated by the People's Bank of China from time to time. In respect of leasing service fee, reference will be made to rates chargeable by other major financial institutions for financial leasing in connection with assets of a similar or the same type. The standard of rental payable, pre-leasing interest (if any) and leasing service fee (if any) will be determined on terms no less favourable to the Group than those offered by other independent third parties.

3.4 Coordination of annual demand of products and services

Two months prior to the end of each financial year, both parties are required to prepare and submit to each other an annual plan detailing the estimated demand for products and services to be rendered in accordance with the New Comprehensive Agreement for the forthcoming financial year. Furthermore, one month prior to the end of each financial year, both parties are required to prepare and submit to each other a plan of provision of products and services to each other in accordance to the New Comprehensive Agreement.

3.5 Rights and obligations

The Group retains the right to choose to receive products and services, as contemplated under the New Comprehensive Agreement, from independent third parties where the terms and conditions as to price or quality of products or services offered by such third parties may be superior to those offered by CNPC.

In addition, the New Comprehensive Agreement does not require provision of products and services on an exclusive basis. Each party may provide products and services to other third parties, subject always to the obligation that each party must provide those products and services which may be required in accordance with the New Comprehensive Agreement and the annual plan then in force.

3.6 Term and termination

The New Comprehensive Agreement is valid for 3 years commencing 1 January 2021. During the term of the New Comprehensive Agreement, termination of the individual product and service implementation agreements may be effected from time to time by the parties to the product and service implementation agreements providing at least 6 months' written notice of termination in relation to any one or more categories of products or services. Further, in respect of any products or services contracted to be provided on or before the notice of termination, the notice of termination will not affect the completion of the provision of such products and services.

In the event that the Company is unable to find an alternative product or service provider (which shall be communicated by the Company to CNPC from time to time), then unless permitted by the Company, CNPC must continue to provide such products or services.

3.7 Comparison between the New Comprehensive Agreement and the Comprehensive Agreement

Main revised terms of the New Comprehensive Agreement in comparison with the Comprehensive Agreement are as follows:

(1) Updated the pricing basis for refining products, natural gas, power supply, and gas supply services provided by the Group to CNPC/Jointly-held Entities;

(2) Updated the pricing basis for project design, project supervision, power supply, and gas supply services provided by CNPC to the Group; and

(3) Supplemented sharing services in the services provided by CNPC to the Group.

3.8 Internal control measures to ensure that the connected transactions are conducted in accordance with the New Comprehensive Agreement

The Company will strictly enforce a series of measures, including connected transaction management methods, internal control management handbook and internal control assessment management methods, to ensure that connected transactions are conducted in accordance with the New Comprehensive Agreement. The Company's external auditors shall conduct an interim review and a year end audit on the Company's internal control measures. Meanwhile, the Company's Reform and Enterprise Management Department, the Audit Committee of the Board of the Company and the Supervisory Committee shall each conduct internal assessments, supervision and examination on the internal control measures and the financial information of the Company, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Furthermore, they shall convene meetings twice a year to discuss and assess the implementation of connected transactions.

The Company has established a series of internal control measures to ensure that the pricing basis for continuing connected transactions of the Company will follow the prescribed pricing mechanism under its framework agreement, including:

(1) For products and services where the government-prescribed price applies, when any laws, regulations or other regulatory documents in relation to government-prescribed price in respect of certain category of products or services come into effect, the pricing department of the Company will forward these regulatory requirements to its operating entities and require all the operating entities to follow the government-prescribed price. The internal audit department of the Company will review the enforcement of the government-prescribed price by the operating entities from time to time. All the operating entities shall accept the law enforcement supervision by the pricing authorities of the government;

(2) For products and services where the market-oriented price applies, all the operating entities of the Company shall comply with the regulations for the management of bidding and tendering of the Company. In terms of the product or service of which the transaction amount reaches the particular standard prescribed in regulations, all the operating entities shall determine their suppliers of products and services through tendering. The operating entities or the tendering center of the Company are responsible for the preparation of tendering requirement documents. A tendering committee comprised by both internal and external randomly picked experts will be established to conduct the tendering process for each project and determine the final suppliers. In terms of the product and service of which the transaction amount is lower than the particular standard prescribed in regulations, all the operating entities shall determine their suppliers of products and services by inviting suppliers to the competitive negotiations. The relevant department of the operating entities to which the product or service will be offered is responsible for comparing the terms of these suppliers. The comparison results will be submitted to the management team of the operating entity for final approval;

(3) For products and services where the actual cost or agreed contractual price applies, the operating entities of the Company and CNPC will generally negotiate the cost for the products and services to be provided in advance. Meanwhile, the Company and CNPC have jointly set up a construction cost center comprised by experienced technical experts, which is responsible for the formulation of the cost standards for certain engineering technology services provided by CNPC. After the provision of relevant products or services, the internal auditors of the Group will review the actual cost of these products or services prepared by CNPC with reference to the negotiation results prior to the transactions or the cost standards formulated by the construction cost center. The settlement and payment shall only be made after the review is approved by the internal auditors;

(4) The Company's Reform and Enterprise Management Department shall regularly conduct internal assessments on the internal control measures every year to ensure that the internal control measures in respect of connected transactions remain complete and effective;

(5) The Board shall review the financial reports containing the disclosure and analysis of the execution of the continuing connected transaction on a semi-annual basis. The review will mainly include: whether the Company and relevant connected persons follow the continuing connected transaction agreements (including the prescribed pricing mechanism thereunder) during the year or half of the year and whether the actual transaction amounts incurred between the Company and relevant connected persons are within the annual caps as approved at the shareholders' general meeting;

(6) The independent non-executive Directors shall conduct annual review on the continuing connected transactions and provide annual confirmations in the annual reports of the Company on whether the continuing connected transactions are conducted (i) in the ordinary course of business of the Company; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interest of the Company and the Shareholders as a whole;

(7) The audit committee of the Company shall conduct review on the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the execution of the continuing connected transactions and opine on the continuing connected transactions disclosed in such reports and financial statements, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps;

(8) The external auditors of the Company shall report on the continuing connected transactions of the Company every year and issue a letter to the Board in respect of the continuing connected transactions of the Company in accordance with the HKEx Listing Rules;

(9) The Supervisory Committee shall supervise the continuing connected transactions and review the annual financial report and interim financial report which include the execution of the continuing connected transactions every year. The Supervisory Committee shall also review whether the connected transactions between the Company and connected persons comply with the regulatory requirements of domestic and overseas places where the Company is listed, whether the prices are fair and reasonable and whether there is any act which is detrimental to the interests of the Company and the Shareholders.

4. LAND LEASE PROVIDED BY CNPC TO THE GROUP

The Company entered into the Land Use Rights Leasing Contract with CNPC on 10 March 2000 under which CNPC has leased parcels of land in connection with and for the purpose of all aspects of the operations and business of the Group covering an aggregate area of approximately 1,145 million square meters, located throughout the PRC, to the Company for a term of 50 years. The Board believes that a leasing term of 50 years is appropriate for the Land Use Rights Leasing Contract, since the Company is one of China's largest petroleum companies principally engaging in the exploration, development, production and sales of crude oil and natural gas and the production and sales of refined products and chemical products, and the relevant land leases are of material significance of the Group's operations. The long stability of a 50-year tenure is required to avoid the unnecessary disruption of its operations and such tenure conforms with normal business practices in the PRC property market. The total fee payable for the lease of all such property may, after the expiration of 10 years from the date of the Land Use Rights Leasing Contract, be adjusted to reflect market conditions prevalent at such time of adjustment, including current market prices, inflation or deflation, as appropriate, and such other pertinent factors as may be considered in negotiating and agreeing to any such adjustment by agreement between the Company and CNPC.

Having regard to the operational need of the Company and changes in the land markets in the recent years, the Company entered into a supplemental agreement to the Land Use Rights Leasing Contract with CNPC on 25 August 2011, pursuant to which the parties reconfirmed the area of the leased land parcels, and the Company agreed to rent from CNPC parcels of land situated at 16 different provinces/municipalities with an area of approximately 1,782.97 million square metres. Further, the parties agreed to adjust the total rental payable in accordance to the reconfirmed area of leased land parcels and the prevailing situation of the land market, and the adjusted annual rental fee (exclusive of tax and government charges) of the rented parcels of land shall be not more than RMB3,892 million. The expiry date of the Land Use Rights Leasing Contract as amended by the supplemental agreement would be the same as the original Land Use Rights Leasing Contract. The supplemental agreement took effect from 1 January 2012 upon the approval of the Board. The Company and CNPC may, taking into consideration the production situation and the market situation of the Company, negotiate to revise the leased area and rental payable every three (3) years.

Having regard to the actual operational demand for land and changes in the land market in recent years, the Company and CNPC each issued a confirmation letter to the Land Use Rights Leasing Contract on 28 August 2014, which adjusted the rental payable and the area for the leased land parcels. The Company agreed to rent from CNPC parcels of land with an aggregate area of approximately 1,777.21 million square metres with annual rental payable adjusted to approximately RMB4,831 million in accordance with the reconfirmed area of leased land parcels and the prevailing situation of the land market. The Land Use Rights Leasing Contract and its supplemental agreement shall remain unchanged, apart from the rental payable and the leased area. The confirmation letter became effective from 1 January 2015.

Having regard to the actual operational demand for land and changes in the land market in recent years, the Company and CNPC each issued a confirmation letter to the Land Use Rights Leasing Contract on 24 August 2017, which further adjusted the rental payable and the area for the leased land parcels. The Company agreed to rent from CNPC parcels of land with an aggregate area of approximately 1,772.65 million square metres with annual rental payable adjusted to approximately RMB5,783 million in accordance with the reconfirmed area of leased land parcels and the current situation of the land market. The annual rental payable per square metre was approximately RMB3.26. The Land Use Rights Leasing Contract and its supplemental agreement shall remain unchanged, apart from the rental payable and the leased area. The confirmation letter shall become effective from 1 January 2018.

Having regard to the actual operational demand for land and changes in the land market in recent years, the Company and CNPC issued a confirmation letter to the Land Use Rights Leasing Contract on 27 August 2020, which further adjusted the rental payable and the area for the leased land parcels. The Company agreed to rent from CNPC parcels of land with an aggregate area of approximately 1,141.73 million square metres with annual rental payable adjusted to approximately RMB5,673.17 million in accordance with the reconfirmed area of leased land parcels and the current situation of the land market. The annual rental payable per square meters shall be approximately RMB4.97, representing an increase of approximately RMB1.71 as compared to the annual rental payable per square meter under the confirmation letter dated 24 August 2017 as stated above. The Land Use Rights Leasing Contract shall remain unchanged, apart from the rental payable and the leased area. The confirmation letter shall become effective from 1 January 2021.

Savills Valuation and Professional Services Limited, an independent valuer, has reviewed the confirmation letter and has confirmed that the adjusted rentals payable by the Company to CNPC are fair and reasonable and such rentals are not higher than the market level. The date of valuation is 30 June 2020.

As the independent financial advisor opined in their letter when they were engaged for advising on the renewal of continuing connected transaction in August 2011, a lease term of 50 years is essential to the long term development of the Group and is in line with normal business practices. Therefore, the Directors (including independent non-executive directors) of the Company still consider that a lease term of 50 years is in line with normal business practices.

5. BUILDINGS LEASE PROVIDED BY CNPC TO THE GROUP

The Company and CNPC entered into the Buildings Leasing Contract on 10 March 2000 for a term of 20 years, and the supplemental buildings leasing agreement on 26 September 2002, pursuant to which CNPC has leased to the Company buildings with an aggregate gross floor area of 712,500 square meters, located throughout the PRC for the use by the Company for its business operation including the exploration, development and production of crude oil, the refining of crude oil and petroleum products, the production and sale of chemical products, etc. The Company is responsible for the payment of any governmental, legal or other administrative taxes and maintenance charges required to be paid in connection with these leased buildings. The Company and CNPC agreed to, based on their needs for production and operation or the changes of the market prices of the buildings, adjust the numbers and the sizes of the buildings leased under the Buildings Leasing Contract as well as the supplemental buildings leasing agreement every three years.

On 25 August 2011, the Company entered into an Amended Buildings Leasing Contract with CNPC, pursuant to which the Company agreed to lease from CNPC buildings with an aggregate gross floor area of approximately 734,316 square metres and adjust the annual rental payable for the buildings leased to approximately RMB770.25 million. The expiry date of the Amended Buildings Leasing Contract is the same as the Buildings Leasing Contract. The Company and CNPC may adjust the area of building leased and the rental payable every three years as appropriate by reference to the status of the production and operations of the Company and the prevailing market price, but the adjusted rental payable shall not exceed the comparable fair market price.

The Company and CNPC each issued a confirmation letter to the Buildings Leasing Contract on 28 August 2014, which adjusted the rental payable and the gross floor area for the buildings leased. The Company agreed to rent from CNPC buildings with an aggregate gross floor area of approximately 1,179,585.57 square metres with annual rental payable adjusted to approximately RMB707.71 million in accordance with the reconfirmed gross floor area leased and the current situation of the market. The Buildings Leasing Contract shall remain unchanged apart from the rental payable and the gross floor area leased. The confirmation letter became effective from 1 January 2015.

On 24 August 2017, the Company entered into a 2017 Buildings Leasing Contract with CNPC, pursuant to which (1) the Company and CNPC have agreed that the Amended Buildings Leasing Contract will be terminated on 1 January 2018, the effective date of the 2017 Buildings Leasing Contract; (2) the Company agreed to lease from CNPC buildings with an aggregate gross floor area of approximately 1,152,968 square meters and the annual rental shall be paid by the Company based on the actual situations and business development demand, but the annual rental payable shall not exceed the amount of RMB730.00 million. The annual rental payable per square meter was approximately RMB633.15. The Company and CNPC agreed that they may adjust the area of building leased and the rental payable every three years as appropriate by reference to the status of the production and operations of the Company and the prevailing market price, but the adjusted rental payable shall not exceed the comparable fair market price. The 2017 Buildings Leasing Contract became effective from 1 January 2018 for a term of 20 years.

The Company and CNPC issued a confirmation letter to the 2017 Buildings Leasing Contract on 27 August 2020, which further adjusted the rental payable and the gross floor area for the buildings leased. The Company agreed to rent from CNPC buildings with an aggregate gross floor area of approximately 1,287,486.41 square metres with annual rental payable adjusted to approximately RMB713.00 million in accordance with the reconfirmed gross floor area leased and the current situation of the market. The annual rental payable per square meter shall be approximately RMB553.79, representing a decrease of approximately RMB79.36 as compared to the annual rental payable per square meter under the 2017 Buildings Leasing Contract. The Buildings Leasing Contract shall remain unchanged apart from the rental payable and the gross floor area leased. The confirmation letter shall become effective from 1 January 2021.

Savills Valuation and Professional Services Limited, an independent valuer, has reviewed the confirmation letter and has confirmed that the adjusted rentals payable by the Company to CNPC are fair and reasonable and such rentals are not higher than the market level, and the term of 20 years is in line with the normal business practices. The date of valuation is 30 June 2020.

The Board considered that a leasing term of 20 years for the 2017 Buildings Leasing Contract was reasonable. The reason is that the Company is one of the largest petroleum companies in the PRC, which principally engages in the exploration, development, production and sales of crude oil and natural gas and the production and sales of refined products and chemical products, and the relevant building lease is of paramount importance to the business of the Group. Furthermore, a long lease term of 20 years can avoid unnecessary suspension of the business. The Directors (including independent non-executive directors) of the Company consider that a lease term of 20 years is in line with normal business practices.

6. HISTORICAL AMOUNTS, HISTORICAL ANNUAL CAPS, PROPOSED ANNUAL CAPS AND RATIONALE

The Board has considered and proposed that the following proposed maximum values in respect of the Continuing Connected Transactions which will serve as the annual caps of the relevant transactions above for the period from 1 January 2021 to 31 December 2023:

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(1) Products and services to be provided by the Group to CNPC/Jointly-held Entities				
(a) Products and services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB84,064 million, RMB99,574 million and RMB33,051 million, respectively.	For the three years ending 31 December 2020, RMB153,716 million, RMB153,861 million and RMB155,390 million, respectively.	For the three years ending 31 December 2023, RMB150,000 million, RMB147,200 million and RMB144,600 million, respectively.	The proposed annual caps for the products and services to be provided by the Group to CNPC/Jointly-held Entities have been determined with reference to the historical transactions and transaction amounts in providing products and services by the Group to CNPC/Jointly-held Entities; the estimated business development of the Group; the estimated business development of CNPC; the potential fluctuations in the prices of crude oil, petrochemical products, natural gas and other oil products and services both in the international market and in the domestic market; and quantities of crude oil and natural gas reserves required (by CNPC as decreed by the government). The Group is of the view that the proposed adjustment in annual cap is in line with the estimated development of the business of the Group and CNPC, and is determined based on principles of fairness and reasonableness.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because both the Company and CNPC are large enterprises, with a large scale and transaction volumes. Since the annual caps for the continuing connected transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. As such, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the proposed annual caps. Main details are as follows: (1) international trade accounts for a large proportion of this category of connected transactions, and its uncertainty is far greater than other businesses; (2) considering that the Group and CNPC and most of their respective subsidiaries are located in the same region, the Group wishes to supply more products and services to CNPC in order to save logistic costs and improve efficiency. However, as there is competition from independent third parties on market, products and services actually provided by the Group to CNPC may be less than anticipated.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(b) Financial services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, RMB645 million, RMB1,154 million and RMB606 million, respectively.	For the three years ending 31 December 2020, RMB22,291 million, RMB22,398 million and RMB22,506 million, respectively.	For the three years ending 31 December 2023, RMB22,000 million, RMB22,000 million and RMB22,000 million, respectively.	The proposed annual caps for the financial services, including entrustment loans, guarantees and other financial services, to be provided by the Group to the Jointly-held Entities have been determined with reference to the business development and financing needs of the Jointly-held Entities, and the acquisition opportunities which may arise from time to time in the international market. The Group's strategic objective is to become an international petroleum company with significant oil assets both onshore and offshore as well as in both the PRC and international markets. The Group is of the view that the provision of financial services to the Jointly-held Entities will enable them to have sufficient funding for future acquisition.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because the Group plans to grasp acquisition opportunities that may emerge on the international market from time to time. Once it is confirmed that the Group will proceed with an acquisition, the capital needs can be immense. Accordingly, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the proposed annual caps. Main details are as follows: (1) capital needs of Jointly-held Entities for acquisition, therefore, the Group may not actually be required to provide financial services to these Jointly-held Entities; (2) acquisition targets that emerge on the market may not be able to meet the acquisition expectations of the Jointly-held Entities.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(2) Products and services to be provided by CNPC/Jointly-held Entities to the Group				
(a) Engineering technology services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB147,925 million, RMB175,804 million and RMB39,579 million, respectively.	For the three years ending 31 December 2020, RMB208,103 million, RMB203,908 million and RMB198,537 million, respectively.	For the three years ending 31 December 2023, RMB198,200 million, RMB197,500 million and RMB197,000 million, respectively.	The proposed annual caps for the provision of engineering technology services have been determined with reference to the completed transactions and transaction amounts for the engineering technology services provided by CNPC/Jointly-held Entities to the Group and the estimated business development of the Group. The Group has obtained engineering technology services from CNPC in the ordinary course of business, and as one of the most experienced companies in the world, the engineering technology services CNPC provided to the Group are quality services. CNPC is also one of the few companies in the PRC which provide quality petrochemical related engineering technology services. The Group is of the view that the proposed adjustment in annual cap is in line with the estimated development of the business of the Group, and is determined based on principles of fairness and reasonableness.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because both the Company and CNPC are large enterprises, with a large scale and transaction volumes. Since the proposed annual caps for the continuing connected transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. Accordingly, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the annual caps. Main details are as follows: CNPC's competitiveness in the industry are comparably stronger as it has human resource advantages, technological advantages and cost advantages, etc. When forecasting the caps, the Group shall consider the possibility that CNPC will participate in all the projects. However, CNPC might not be able to participate in all the projects in practice due to specific conditions of different projects.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(b) Production services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB151,950 million, RMB148,128 million and RMB48,132 million, respectively.	For the three years ending 31 December 2020, RMB228,730 million, RMB220,525 million and RMB212,833 million, respectively.	For the three years ending 31 December 2023, RMB207,700 million, RMB205,500 million and RMB204,500 million, respectively.	The proposed annual caps for the production services provided by CNPC to the Group have been determined with reference to the previous transactions conducted and transaction amounts in respect of production services provided by CNPC to the Group, the estimated business development of the Group, and the potential fluctuations in the international and the PRC market prices of crude oil, petroleum and petrochemical products. Production services mainly consist of water supply, electricity supply, gas supply, the supply of petroleum, natural gas and petrochemical products and others (including sharing services) by CNPC to the Group. The Group is of the view that the proposed adjustment in annual cap is in line with the estimated development of the business of the Group, and is determined based on principles of fairness and reasonableness.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because both the Company and CNPC are large enterprises, with a large scale and transaction volumes. Since the proposed annual caps for the continuing connected transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. Accordingly, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the proposed annual caps. Main details are as follows: (1) international trade accounts for a large proportion of this category of connected transactions, and uncertainty is much greater than other businesses; (2) due to the objective to maintain the quality of crude oil and natural gas, CNPC is required to replace its crude oil and natural gas reserve from time to time and supply the replaced crude oil and natural gas to the Company to conduct production and sales activities. Therefore, this amount needs to be taken into consideration when determining the proposed annual caps.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(c) Material supply services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB31,670 million, RMB34,947 million and RMB5,055 million, respectively.	For the three years ending 31 December 2020, RMB35,566 million, RMB35,344 million and RMB35,819 million, respectively.	For the three years ending 31 December 2023, RMB35,300 million, RMB35,300 million and RMB35,300 million, respectively.	The annual caps for the supply of materials services paid by the Group to CNPC have been determined by reference to the estimated business development of the Company. CNPC is one of the leading buyers of petrochemical raw materials in the PRC. With the economy of scale and the collective bargaining power of CNPC, the centralized purchase of materials by CNPC can stabilise the purchase prices of the Company's raw materials. The Group is involved in a number of oil and gas fields and refinery construction projects in which CNPC provides to the Group material supply services. The Group is of the view that the proposed adjustment in annual cap is in line with the estimated development of the business of the Group, and is determined based on principles of fairness and reasonableness.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because both the Company and CNPC are large enterprises, with a large scale and transaction volumes. Since the proposed annual caps for the continuing connected transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. Accordingly, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the proposed annual caps in order to satisfy the needs of changes in the Group's production and operations.
(d) Social and living support services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB7,362 million, RMB3,463 million and RMB997 million, respectively.	For the three years ending 31 December 2020, RMB9,093 million, RMB9,432 million and RMB9,731 million, respectively.	For the three years ending 31 December 2023, RMB5,800 million, RMB5,800 million and RMB5,800 million, respectively.	A majority of the Group's local subsidiaries are situated in isolated industry or mining zones, where no social and living support services are available from independent third parties on more favourable terms, if at all. It is therefore more convenient for CNPC to provide such services.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The proposed annual caps for social and living support services have been determined with reference to the previous transactions conducted and transaction amounts in respect of the social and living support services provided by CNPC to the Group, estimated development of the Group's business and possible future reforms to the social and living support services provided by CNPC. The Group is of the view that the proposed annual cap is in line with the development of the business of the Group, and is determined based on principles of fairness and reasonableness. The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because both the Company and CNPC are large enterprises, with a large scale and large volumes. Since the proposed annual caps for the continuing connected transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. Accordingly, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the proposed annual caps in order to satisfy the needs of changes in the Group's production and operations.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(e) Financial services				
(i) Aggregate of maximum daily deposits made by the Group with CNPC and the interests received in respect of these deposits	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB61,345 million, RMB61,692 million and RMB58,417 million, respectively	For the three years ending 31 December 2020, RMB63,000 million, RMB63,000 million and RMB63,000 million, respectively	For the three years ending 31 December 2023, RMB55,000 million, RMB55,000 million and RMB55,000 million, respectively	The proposed annual caps for the financial services (aggregate of deposits and interests) provided by CNPC to the Group have been determined with reference to the estimated business development of the Group, the Group's historical cash flow and levels of deposits and the competitive interest rates offered by CNPC Finance, and other financial institutions. In order to optimise cash flow management and capital efficiency of the Group and CNPC, CNPC Finance and other financial institutions provide a full range of financial services to the Group and CNPC. The Group is of the view that the proposed annual cap is in line with the development of the business of the Group, and is determined based on principles of fairness and reasonableness. Fees and interest rates with respect to financial services provided by CNPC Finance are determined in accordance with the benchmark lending rates and fees promulgated by the People's Bank of China, or other relevant regulations by financial regulatory bodies (where applicable), and they are no less favourable than those offered by independent third parties. The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 was minimal. The proposed annual cap is similar to historical amounts incurred.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(ii) Insurance, fees and expenses for entrustment loans, settlement services and other intermediary services	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB1,059 million, RMB983 million and RMB707 million, respectively	For the three years ending 31 December 2020, RMB2,417 million, RMB2,753 million and RMB3,110 million, respectively	For the three years ending 31 December 2023, RMB2,400 million, RMB2,400 million and RMB2,400 million, respectively	To optimise cash flow management and capital efficiency of the Group, CNPC Finance and other financial institutions provide a full range of financial services to the Group. Through captive insurance, property insurance and life insurance services provided by Generali China Insurance Co., Ltd. (中意財產保險有限公司) in which CNPC holds 51% issued share capital, CNPC Captive Insurance Co., Ltd. (中石油專屬財產保險股份有限公司) in which CNPC holds 51% issued share capital and Generali China Life Insurance Co., Ltd (中意人壽保險有限公司) in which CNPC holds 50% issued share capital, the Group obtains broader and more in-depth access to different types of insurance, including property, personal injury and liability, etc. This enhances the Group's ability to manage risks. Fees and interest rates with respect to financial services provided by CNPC Finance is determined in accordance with the benchmark lending rates and fees promulgated by the People's Bank of China, or other regulations by financial regulatory bodies. CNPC Finance offers interest rates, fee scale or other terms to the Group that are no less favourable than those offered by independent third parties. Currently, settlement services provided by CNPC Finance (including bills of exchange, entrusted fund collection, online settlement, account management and fund management, etc.) can offer more simplicity and expediency in terms of approval process and settlement efficiency compared to other commercial banks in the market.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical amount incurred in 2018 and 2019 are mainly because both the Company and CNPC are large enterprises, with a large scale and transaction volumes. Since the proposed annual caps for the continuing connected transactions are for three years, it is difficult for the Company to anticipate all the possible contingencies accurately during the period. Accordingly, the Company makes sufficient estimations taking into consideration commercially feasible plans when applying for the proposed annual caps.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(iii) Financial leasing services Maximum outstanding daily balance (including the outstanding lease principal, rentals, pre-leasing/leasing interest and other fees) due by the Group	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB3,207 million, RMB2,837 million and RMB1,912 million, respectively	For the three years ending 31 December 2020, RMB17,804 million, RMB19,894 million and RMB21,605 million, respectively	For the three years ending 31 December 2023, RMB5,000 million, RMB5,000 million and RMB5,000 million, respectively	In order to maintain its investment in development of oil and gas area with scale, major refining infrastructure and sales networks for refined products, the Company needs service support from financial companies which are capable of providing low cost, reliable fund-raising, financing and settlement services of high quality, flexibility and convenience, in such a way as to reconcile financial capital with industrial capital. Leveraging on the financial edge of Kunlun Leasing, the Group will be capable of deepening financing innovation, broadening sources of financing and ensuring timely and effective availability of capital required for the Group's strategic development. The Group would also be able to refine the Group's management of interest-bearing debt and match potential project investment return to fund-raising and financing capabilities, and capital operations to operating cash flows. Kunlun Leasing is capable of providing the Company with more quality services at prices, terms and conditions which are no less favourable than those offered by any other third-party financial institutions.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
				The difference between the 2018 and 2019 annual caps and the actual amount incurred in 2018 and 2019 and the difference between the proposed annual caps and the historical maximum outstanding daily balances for 2018 and 2019 are mainly because financial leasing is only one of financing means used by the Company. In practice, the Company will make general adjustments to means of financing taking into consideration the prevailing circumstances and the needs of the Company, and may use other means of financing. As a result, the actual amount incurred for financial leasing is lower than the relevant annual cap. However, as the Company may still need to use financial leasing as a means of financing. Therefore, the proposed annual cap was determined with reference to the estimated capital needs of the Company, circumstances of the relevant assets and the cost of financing in the market, etc.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
(f) Land lease	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB2,157 million, RMB1,959 million and RMB2,710 million, respectively (exclusive of tax and government charges) *Note 1:* The historical amount were calculated based on the annual leasing fee (exclusive of tax and government charges) paid in respect of the land lease. *Note 2:* In the light of the fact that International Financial Reporting Standard No. 16 "Leases" has become effective on January 1, 2019, for the two years ended 31 December 2019 and the six months ended 30 June 2020, the amount of the total value of right-of-use assets relating to the leases expected to be entered into by the Group each year were approximately nil, RMB7,206 million and RMB2,601 million. The right-of-use assets are confirmed based on the land leasing situations of the	For the three years ending 31 December 2020, RMB5,783 million, RMB5,783 million and RMB5,783 million, respectively (exclusive of tax and government charges) *Note:* The historical caps were calculated based on the annual leasing fee (exclusive of tax and government charges) paid in respect of the land lease.	For the three years ending 31 December 2023, RMB16,578 million, RMB11,019 million and RMB5,685 million, respectively (exclusive of tax and government charges)	The Board considers that the proposed annual caps on the land lease provided by CNPC to the Group would ensure that the Company achieves its future business development plans. In the light of the fact that International Financial Reporting Standard No. 16 "Leases" has become effective on January 1, 2019 and pursuant to the requirements of the Hong Kong Stock Exchange, the Company changed the basis of determination of the proposed annual cap for the period from 2021 to 2023 with reference to the annual value of right-of-use assets relating to land lease. The annual value of the right-of-use assets is mainly based on the recognition of the current value of the minimum lease payment and the measurement of the corresponding lease liability. The proposed annual caps of 2021–2023 for land lease are mainly based on: (1) the total value of right-of-use assets relating to land lease in the period of 2021–2023; (2) the estimated changes in annual leasing fee to be paid in respect of the land lease in the period of 2021–2023 and relevant situation of the market price of land lease; (3) the discount rate determined based on the five-year period loan issued by the People's Bank of China and with reference to the interest rate for the Company's new loans. The Company expects that annual leasing fee payable by the Group to CNPC under the confirmation letter to the Land Use Rights Leasing Contract for each of the three years ending 31 December 2021, 2022 and 2023 will be approximately RMB5,673 million (the "**Expected Land Lease Fee**"). The difference between the Expected Land Lease Fee and the historical land lease fee incurred in the years for 2018 and 2019 and the difference between the 2018 and 2019 annual caps determined based on annual leasing fee paid in respect of the land lease and the historical land lease fee incurred in the years of 2018 and 2019 are mainly because during the contractual period, members of the Group may choose to terminate the lease in respect of certain lands based on the actual conditions.

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
	period of 2019–2020, while the amount of right-of-use assets related to the land leasing as disclosed in 2019 annual report and 2020 interim financial report, are determined based on the aforementioned period after taking into consideration of the lease renewal option.			The difference between the proposed annual caps and the historical amount of total right-of-use assets of the year of 2019 and the six months ended 30 June 2020 determined based on the land leasing situation of 2019–2020, are mainly because: (1) the relevant leasing period of right-of-use assets are different; (2) the estimated changes in annual leasing fee to be paid in respect of the land lease and relevant situation of the market price of land lease are different.
(g) Buildings lease	For the two years ended 31 December 2019 and the six months ended 30 June 2020, approximately RMB497 million, RMB569 million and RMB175 million, respectively *Note 1:* The historical amount were calculated based on the annual leasing fee paid in respect of the buildings lease. Note 2: In the light of the fact that International Financial Reporting Standard No. 16 "Leases" has become effective on January 1, 2019, for the two years ended 31 December 2019 and the six months ended 30 June 2020, the amount of the total value of right of use assets relating to the leases expected to be entered into	For the three years ending 31 December 2020, RMB730 million, RMB730 million and RMB730 million, respectively *Note:* The historical caps were calculated based on the annual leasing fee paid in respect of the buildings lease.	For the three years ending 31 December 2023, RMB2,083 million, RMB1,384 million and RMB714 million, respectively.	The Board considers that the proposed annual caps in respect of the building leases provided by CNPC to the Group would ensure that the Company achieves its future business development plans. In the light of the fact that International Financial Reporting Standard No. 16 "Leases" has become effective on January 1, 2019 and pursuant to the requirements of the Hong Kong Stock Exchange, the Company changed the basis of determination of the proposed annual cap for the period from 2021 to 2023 with reference to the annual value of right-of-use assets relating to buildings lease. The annual value of right-of-use assets is mainly based on the recognition of the current value of the minimum lease payment and the measurement of the corresponding lease liability. The proposed annual caps of 2021–2023 for buildings lease are mainly based on: (1) the total value of right-of-use assets relating to the buildings lease in the period of 2021–2023; (2) the estimated changes in annual leasing fee to be paid in respect

Transaction categories	Historical amount	Historical annual caps	Proposed annual caps for 2021 to 2023	Basis of determination of the proposed annual caps
	by the Group each year were approximately nil, RMB1,218 million and RMB168 million. The right-of-use assets are confirmed based on the buildings leasing situation of the period of 2019–2020, while the amount of right-of-use assets related to the buildings leasing as disclosed in 2019 annual report and 2020 interim financial report, are determined based on the aforementioned period after taking into consideration of the lease renewal option.			of the buildings lease in the period of 2021–2023 and relevant situation of the market price of buildings lease; (3) the discount rate determined based on the five-year period loan issued by the People's Bank of China and with reference to the interest rate for the Company's new loans. The Company expects that annual leasing fee payable by the Group to CNPC under the confirmation letter to the 2017 Buildings Leasing Contract for each of the three years ending 31 December 2021, 2022 and 2023 will be approximately RMB713 million (the "**Expected Building Lease Fee**"). The difference between the Expected Building Lease Fee and the historical building lease fee incurred in the years for 2018 and 2019 and the difference between the 2018 and 2019 annual caps determined based on annual leasing fee paid in respect of the buildings lease and the historical building lease fee incurred in the years of 2018 and 2019 are mainly because members of CNPC who own one or more leased buildings may enter into individual building leasing contracts with members of the Group pursuant to the terms of the framework agreement. Members of the Group may choose to terminate the lease in respect of certain buildings taking into consideration the conditions offered by independent third parties on the market. The difference between the proposed annual caps and the historical amount of total right-of-use assets of the year of 2019 and the six months ended 30 June 2020 determined based on the buildings leasing situation of 2019–2020, are mainly because: (1) the relevant leasing period of right-of-use assets are different; (2) the estimated changes in annual leasing fee to be paid in respect of the buildings lease and relevant situation of the market price of buildings lease are different.

Note: The New Comprehensive Agreement also provides for loans and other financial assistance to be provided by CNPC/Jointly-held Entities to the Group. These transactions are fully exempt from shareholders' approval, annual review and all disclosure requirements set out in Chapter 14A of the HKEx Listing Rules, pursuant to the Rule 14A.90 of the HKEx Listing Rules. Please refer to below for details.

7. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, international trading, engineering and technical services, petroleum equipment manufacturing and logistical support services. The Company is a joint-stock company established during the reorganization of CNPC on 5 November 1999. CNPC injected the assets, liabilities and rights related to its core business into the Company, such as oil and gas exploration and development, oil refinement, petrochemical, sales and marketing, natural gas, pipelines and related scientific research, etc. CNPC is the sole promoter of the Company. The Company completed its offshore listing in April 2000 and CNPC continues to be the controlling shareholder of the Company. CNPC retained businesses related to the operation and production of petroleum and natural gas, such as engineering technology services, production services, material supply services, ancillary services, social services and financial services, etc. These businesses can provide a series of necessary services in relation to the production and operation of the Company and its subsidiaries and in relation to the livelihood of its employees. The Group and CNPC are equipped with advantages of talented employees, advanced technology and geographical vicinity, and have been in a long-term cooperation relationship with each other. Therefore, the Company believes that the Continued Connected Transactions will be beneficial to the continued operation and development of the Group. This is mainly reflected in:

(a) The construction technology, production and financial services provided to the Group by CNPC have competitive advantages over other service providers in the same industry in the PRC. CNPC has significant experience, technology and cost advantages when compared with other service providers;

(b) The petroleum industry has its unique requirements for technology and quality, and the oil and gas engineering and technological services provided by CNPC are of higher standards within the industry, which can satisfy the technological and quality standards of the projects invested in and operated by the Group. At the same time, high quality services can also reduce safety and environmental protection risks of the Group significantly;

(c) Financial subsidiaries of CNPC focus on providing services to the Group and have strong financial capabilities. They have provided highly efficient financial services to the Group both domestically and abroad. Details of which are described below:

    (i) CNPC Finance is the internal settlement, fund raising and financing and capital management platform of CNPC. CNPC provides deposit and other financial services to the Group through CNPC Finance and other financial institutions;

    (ii) CNPC Finance lowered the costs of the Group through various mechanisms, such as providing more efficient internal settlement, and the loan process is convenient, timely and efficient. Furthermore, CNPC Finance utilizes its status as member of the China Foreign Exchange Trading Centre (中國外匯交易中心) to develop businesses in the settlement, sales and conversion of foreign currency, which saved the Group a considerable amount in foreign exchange costs;

(iii) CNPC Finance is under the supervision of the China Banking and Insurance Regulatory Commission as a major domestic non-bank financial institution, and has achieved the regulatory requirements as determined by regulatory indicators over the years. As at the end of 2019, CNPC Finance has total assets of RMB600,142 million and achieved an income of RMB17,714 million and a net profit of RMB7,926 million, occupying a leading position among domestic counterparts. In 2013, CNPC Finance (HK) Limited, a wholly-owned subsidiary of CNPC Finance, obtained the sovereign rating assigned by an international rating agency. This is currently the highest credit rating obtained by domestic financial institutions; The Company considers that due to familiarity with the business and operation of the Group, the service provided by CNPC Finance is generally no less favourable to the market level in terms of price and quality, and with high efficiency, more convenience and lower transaction costs. In particular, CNPC's undertaking to act as the payer of last resort for CNPC Finance provides better security of funds as compared to external banks. Furthermore, the Company is in a position to benefit from dividends by virtue of owning 32% shareholding in CNPC Finance;

(iv) Kunlun Leasing is capable of providing low cost, reliable fund-raising, financing and settlement services of high quality, flexibility and convenience which will support the Group to maintain its scale of investment in development of oil and gas, major refining infrastructure and in sales networks for refined products and to reconcile financial capital with industrial capital. Leveraging on the financial edge of Kunlun Leasing, the Group will be capable of deepening financing innovation, broadening sources of financing and ensuring timely and effective availability of capital required for the Group's strategic development. The Group would further be able to refine the Group's management of interest-bearing debt and match potential project investment return to fund-raising and financing capabilities, and capital operations to operating cash flows;

(d) The Group's main oil fields and refining and chemical production facilities are scattered across different regions, some of which are in remote areas with harsh operating conditions. CNPC and its subsidiaries can provide service and business support to the Group locally, and this to a large extent is beneficial to the Group's continued development in such regions.

Actual practices proved that the Continuing Connected Transactions benefit the continued operation and development of the Company.

Given the nature of the cooperation between the Company and CNPC, the Company considers the New Comprehensive Agreement, the Non-Exempt Continuing Connected Transactions and their proposed annual caps to be one significant proposal. As such, the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions will be proposed to the Extraordinary General Meeting for consideration and approval as one single resolution. Any votes by the Shareholders on such resolution will be applicable to the New Comprehensive Agreement as well as the proposed annual caps in respect of each of the Non-Exempt Continuing Connected Transactions alike.

The Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Company. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Due to the long-term relationship between the Company and CNPC, the Directors (including the independent non-executive Directors) consider that: (a) it is beneficial to the Company to continue to enter into the Continuing Connected Transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Group's business; (b) the Continuing Connected Transactions have been conducted on normal commercial terms or on terms no less favourable than those available to the Group from independent third parties, under prevailing local market conditions, and are entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps for the Continuing Connected Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. At the same time, the Continuing Connected Transactions do not harm the interests of the Company and the minority Shareholders, will not have an adverse effect on the Company's current and future financial condition and will not affect the Company's independence.

The Independent Board Committee has given their view on the terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions after considering the advice from the Independent Financial Advisor on the same in this circular.

8. APPROVAL BY BOARD AND INDEPENDENT SHAREHOLDERS

CNPC is a controlling shareholder of the Company. By virtue of the above, CNPC is a connected person of the Company under the HKEx Listing Rules. Transactions between the Company and CNPC constitute connected transactions of the Company under the HKEx Listing Rules. Jointly-held Entities are companies in which the Company and CNPC jointly hold shares while CNPC and/or its subsidiaries (individually or together) is/are entitled to exercise, or control the exercise of, 10% or more of the voting power of these companies, therefore, Jointly-held Entities are connected persons of the Company and transactions between the Group and Jointly-held Entities constitute connected transactions of the Company under the HKEx Listing Rules. The terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions are subject to approval by the Independent Shareholders under the HKEx Listing Rules. In view of the interests of CNPC, CNPC and its associates will abstain from voting in relation to the resolutions approving the terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions.

The Audit Committee of the Board gave advice to the Board about the Continuing Connected Transactions and their proposed annual caps. The Board (including the independent non-executive directors) has reviewed the advice and is of the view that such transactions are in the ordinary course of business of the Company, and have been entered into on normal commercial terms or terms no less favourable to the Company than those with independent third parties, are fair and reasonable, and in the interest of the Company and the Shareholders as a whole. On such basis, the Board suggests the Independent Shareholders of the Company to approve the terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions.

On 26 August 2020 and 27 August 2020, the seventh meeting of the Board in 2020 was convened by way of a physical meeting, at which the non-connected Directors unanimously approved the resolution on the Continuing Connected Transactions and their proposed annual caps. Each of Mr. Dai Houliang, Mr. Li Fanrong, Mr. Liu Yuezhen, Mr. Lv Bo, Mr. Jiao Fangzheng and Mr. Duan Liangwei, who are deemed as connected Directors by virtue of their positions in CNPC, abstained from voting on the relevant resolutions of the Board. Save as disclosed above, none of the Directors has any material interest in the transactions abovementioned.

Further, an Independent Board Committee has been formed to advise the Independent Shareholders in connection with the terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions, and the Independent Financial Advisor has been appointed to advise the Independent Board Committee and the Independent Shareholders on the same.

9. GENERAL INFORMATION

Information on the Company

The Company is a joint stock limited company incorporated on 5 November 1999 under the PRC Company Law as a result of the restructuring of CNPC. The H Shares, ADSs, and A Shares of the Company are listed on the Hong Kong Stock Exchange, the New York Stock Exchange, and the Shanghai Stock Exchange, respectively.

The Company and its subsidiaries engage in a broad range of petroleum and natural gas activities including the exploration, development, production and sale of crude oil and natural gas; the refining of crude oil and petroleum products; the production and sale of basic petrochemical products, derivative petrochemical products and other petrochemical products; the sale and trading of refined products; and the transportation of natural gas, crude oil and refined products, and the sale of natural gas.

Information on CNPC

CNPC is the controlling shareholder and a connected person of the Company. CNPC is a petroleum and petrochemical conglomerate that was formed in the wake of the restructuring launched by the State Council to restructure the predecessor of CNPC, China National Petroleum Company (中國石油天然氣總公司), in July 1998. CNPC is also a state-authorised investment corporation and state-owned enterprise. CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, international trading, engineering and technical services and petroleum equipment manufacturing.

Information on CNPC Finance

CNPC Finance is owned as to 40% by CNPC, 32% by the Company and 28% by CNPC Capital Company Limited and is a connected person of the Company. As approved by the People's Bank of China and the China Banking Regulatory Commission, the principal business activities of CNPC Finance include providing guarantee to members of the CNPC group and the Group, providing entrusted loan and entrusted investment services to members of the CNPC group and the Group, bill acceptance and discounting for members of the CNPC group and the Group, internal fund transfer and settlement among members of the CNPC group and the Group and relevant internal settlement and clearance plans designing, taking deposits from members of the CNPC group and the Group, providing loans to members of the CNPC group and the Group, underwriting corporate bonds of members of the CNPC group and the Group, and investment in marketable securities.

Information on Kunlun Leasing

Kunlun Leasing is a subsidiary of CNPC and is a connected person of the Company. Kunlun Leasing is a non-bank financial institution established in 2010 with the approval of the China Banking Regulatory Commission. Kunlun Leasing is principally engaged in financial leasing, accepting fixed deposits from shareholders with maturities of one year or above, interbank borrowings and loans to financial institutions, etc.

10. INDEPENDENT SHAREHOLDERS' APPROVAL

Pursuant to the HKEx Listing Rules, the Non-Exempt Continuing Connected Transactions and their proposed annual caps shall be approved by the Independent Shareholders at the Extraordinary General Meeting. Any Shareholder with a material interest in the transaction and its associates will not vote.

CNPC and its associates will abstain from voting on the relevant resolution. To the knowledge of the Company and its Directors, as at the date of this circular, CNPC and its associates hold 146,882,339,136 A Shares and 291,518,000 H Shares, representing approximately 80.41% of the total issued share capital of the Company.

11. THE EXTRAORDINARY GENERAL MEETING

The EGM will be held at Talimu Petroleum Hotel, 5 Beishatan, Chaoyang District, Beijing, PRC at 9:00 a.m. on 5 November 2020 (Thursday) to approve the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions. The EGM Notice is set out on pages 82 to 84 of this circular.

A form of proxy for use at the EGM are enclosed with this circular. Whether or not you are able to attend the EGM, please complete the proxy form and return the same in accordance with the instructions printed thereon. To be valid, for holders of A Shares, this form of proxy, together with the notarised power of attorney or other document of authorisation (if any), must be delivered to the Secretariat of the Board at Room 0610, Block C, China Petroleum Building, 9 Dongzhimen North Street, Dongcheng District, Beijing, PRC (Postal code: 100007) not less than 24 hours before the time appointed for the EGM (*i.e.*, by not later than 9:00 a.m. on 4 November 2020 (Wednesday)). In order to be valid, for holders of H Shares, the above documents must be delivered to Hong Kong Registrars Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong within the same period.

Holders of H Shares whose names appear on the register of members of the Company before the close of business day on 1 October 2020 (Thursday) are entitled to attend the EGM. The register of members of H Shares of the Company will be closed from 1 October 2020 (Thursday) to 5 November 2020 (Thursday) (both days inclusive), during which period no share transfer of H Shares will be registered. Holders of H Shares who wish to attend the EGM are required to deposit the transfer documents together with the relevant share certificates at the Company's H Share Registrar in Hong Kong, Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Wednesday, 30 September 2020 for registration.

The Articles of Association provide that Shareholders who intend to attend the EGM shall lodge a written reply to the Company 20 days before the date of the EGM (the "**Reply Date**"). In case the written replies received by the Company from the Shareholders indicating their intention to attend the EGM represent less than one half of the total number of voting shares, the Company shall within five days from the Reply Date inform the Shareholders of the proposed matters for consideration at the EGM and the date and venue of the EGM by way of announcement. The EGM may be convened after the publication of such announcement.

You are urged to complete and return the form of proxy and reply slip whether or not you intend to attend the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM (or any subsequent meetings following the adjournments thereof) should you wish to do so.

12. VOTES TO BE TAKEN BY POLL

In accordance with the HKEx Listing Rules, any votes of Shareholders at the EGM will be taken by poll.

13. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee, which is set out on pages 48 to 49 of this circular, and which contains their recommendation in respect of the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions.

The advice of the Independent Financial Advisor on the fairness and reasonableness of the terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions are set out on pages 50 to 77 of this circular. The Independent Financial Advisor considers that the terms and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions on the whole are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

The Directors believe that the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

14. FURTHER INFORMATION

Your attention is drawn to the general information set out in the Appendix to this circular.

By Order of the Board
PetroChina Company Limited
Dai Houliang
Chairman

中國石油天然氣股份有限公司
PETROCHINA COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 857)

15 September 2020

Dear Shareholders

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2021 TO 2023

We refer to the Circular dated 15 September 2020 of the Company of which this letter forms a part. Terms defined in the circular shall have the same meanings when used herein.

As CNPC is the controlling shareholder of the Company, transactions between the Group and CNPC/ Jointly-held Entities constitute connected transactions for the Group under the HKEx Listing Rules. The New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions are subject to approval from the Independent Shareholders.

In view of the interest of the Independent Shareholders, we have been appointed by the Board to constitute the Independent Board Committee to consider and advise the Independent Shareholders as to the fairness and reasonableness in relation to the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions, details of which are set out in the Letter from the Board in the Circular to the Shareholders. ICBC International has been appointed as the independent financial advisor to advise the Independent Board Committee. We wish to draw your attention to the letter from ICBC International as set out in the Circular.

Having taken into account the information set out in the Letter from the Board, and the principal factors, reasons and recommendations set out in the letter from ICBC International, we consider the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions to be fair and reasonable insofar as the Independent Shareholders are concerned and believe that the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. At the same time, we are of the view that such transactions are in the ordinary and usual course of business of the Company, and have been entered into on normal commercial terms or terms no less favourable to the Company than those with independent third parties. Accordingly, we recommend that the

Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the New Comprehensive Agreement and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions.

Yours faithfully

Elsie Leung Oi-sie	**Tokuchi Tatsuhito**	**Simon Henry**	**Cai Jinyong**	**Jiang, Simon X.**
Independent non-executive director	*Independent non-executive director*	*Independent non-executive director*	*Independent non-executive director*	*Independent non-executive director*

The following is the text of a letter from ICBC International for the purpose of incorporation in this circular in connection with its advice to the Independent Board Committee and the Independent Shareholders in connection with the terms and the Proposed Annual Caps in respect of the Non-Exempt Continuing Connected Transactions.

ICBC 工银国际

ICBC International Capital Limited
37/F, ICBC Tower
3 Garden Road, Central, Hong Kong

15 September 2020

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

RENEWAL OF CAPS OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF 2021 TO 2023

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and the relevant Proposed Caps in connection with the Non-Exempt Continuing Connected Transactions (the "**Proposed Annual Caps**") contemplated under the New Comprehensive Agreement entered into between the Group and CNPC. Pursuant to the HKEx Listing Rules, the Non-Exempt Continuing Connected Transactions are subject to, among other things, the approval of the Independent Shareholders at the Extraordinary General Meeting. Details of the Continuing Connected Transactions (including the Non-Exempt Connected Transactions and terms of the relevant Proposed Annual Caps) are set out in the letter from the board (The "**Letter from the Board**") contained in this circular to its Shareholders dated 15 September 2020 (the "**Circular**") issued by the Company, of which this letter forms part. Unless otherwise stated, terms used herein shall have the same meanings as those defined in the Circular.

References are made to the circular of the Company dated 8 September 2017 in relation to the Continuing Connected Transactions and the Prospectus dated 27 March 2000. At the extraordinary general meeting of the Company held on 26 October 2017, the Independent Shareholders approved the Continuing Connected Transactions and the annual caps for the three years ending 31 December 2020.

CNPC is the controlling shareholder of the Company. By virtue of the above, CNPC is a connected person of the Company under the HKEx Listing Rules. Accordingly, the Non-Exempt Continuing Connected Transactions between the Company and CNPC constitute non-exempt continuing connected transactions of the Company under the Chapter 14A of the HKEx Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under the HKEx Listing Rules.

The Company announced on 27 August 2020 that the Board has approved the Renewal of Caps of Continuing Connected Transactions in Respect of 2021 to 2023. As the Company would continue the Continuing Connected Transactions after 31 December 2020 and therefore will, in accordance with the HKEx Listing Rules, comply with the provisions of Chapter 14A of the HKEx Listing Rules in relation to the Continuing Connected Transactions for the next three years (i.e. from 1 January 2021 to 31 December 2023), including disclosing further information in the announcement and seeking approvals from the Independent Shareholders for the Non-Exempt Continuing Connected Transactions (including the relevant Proposed Annual Caps).

As stated in the Letter from the Board, the Audit Committee of the Board gave advice to the Board about the New Comprehensive Agreement and Proposed Annual Caps of the Non-Exempt Continuing Connected Transactions. The Board (including the independent non-executive directors) has reviewed the advice and is of the view that such transactions are in the ordinary course of business of the Company, and have been entered into on normal commercial terms or terms no less favourable to the Company than those with independent third parties. It is also of the view that such transactions are fair and reasonable to, and in the interest of, the Company and the Shareholders as a whole. On such basis, the Board suggests the Independent Shareholders of the Company to consent to such transactions.

An Independent Board Committee, comprising the independent non-executive Directors, namely Ms. Elsie Leung Oi-sie, Mr. Tokuchi Tatsuhito, Mr. Simon Henry, Mr. Cai Jinyong, and Mr. Jiang, Simon X., has been established by the Company to advise the Independent Shareholders in connection with the terms and the Proposed Annual Caps in respect of the Non-Exempt Continuing Connected Transactions.

We, ICBC International, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Non-Exempt Continuing Connected Transactions are entered into on normal commercial terms or terms no less favourable to the Company than those with independent third parties, in the ordinary and usual course of business, and the terms of such transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of, the Company and the Shareholders as a whole, and whether the Proposed Annual Caps in respect of the Non-Exempt Continuing Connected Transactions are reasonably determined.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied, without assuming any responsibility for independent verification, on the information, opinions and facts supplied and representations made to us by the Directors and management of the Company, who have assumed full responsibility for the accuracy of the information contained in the Circular, and that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have discussed with the management of the Company regarding their plans and prospects of the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of the extraordinary general meeting. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the business affairs or assets and liabilities of the Company, CNPC or any of their respective subsidiaries or associated companies.

Our opinion is necessarily based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information, and opinions made available to us as of the date of this letter. We have no obligation to update this opinion to take into account events occurring after the date on which this opinion is delivered to the Independent Board Committee and the Independent Shareholders. This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Non-Exempt Continuing Connected Transactions (including the relevant Proposed Annual Caps), except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

ICBC International is a licensed corporation to carry out Type 1 regulated activities (dealing in securities), Type 4 regulated activities (advising on securities) and Type 6 regulated activities (advising on corporate finance) under the SFO. ICBC International and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Company for client accounts. Other than this appointment as the Independent Financial Adviser, ICBC International has no relationships with or interests in the Company and any other parties that could reasonably be regarded as relevant to our independence. We are hence independent from the Company pursuant to Rule 13.84 of the Listing Rules.

INFORMATION OF THE GROUP AND CNPC

According to the annual report for the year ended 31 December 2019 of the Company (the "**2019 Annual Report**"), the Company was established as a joint stock company with limited liability under the Company Law of the PRC on 5 November 1999 as part of the restructuring of the CNPC. The Group is one of the largest oil and gas producers and sellers occupying a leading position in the oil and gas industry in the PRC and one of the largest companies in the PRC in terms of revenue and one of the largest oil companies in the world. The Group principally engages in, among others, the exploration, development, production and sale of crude oil and natural gas; the refining, transportation, storage and sale of crude oil and petroleum products; the production and sale of basic petrochemical products, derivative chemical products and other petrochemical products; and the transmission of natural gas, crude oil and refined oil products, and the sale of natural gas.

As stated in the Letter from the Board, CNPC is the controlling shareholder of the Company. CNPC is a petroleum and petrochemical conglomerate that was formed in the wake of the restructuring launched by the State Council to restructure the predecessor of CNPC, China National Petroleum Company (中國石油天然氣總公司) in July 1998. CNPC is also a state-authorised investment corporation and state-owned enterprise. CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing.

Set out below is a summary of the Group's financial information prepared in accordance with the International Financial Reporting Standards (the "**IFRS**") as extracted from the 2019 Annual Report:

	For the year ended 31 December		
	2017	**2018**	**2019**
	RMB Million	*RMB Million*	*RMB Million*
Revenue	2,032,298	2,347,934	2,516,810
Profit from operations	70,836	122,942	121,762
Profit before taxation	55,691	116,770	103,214

	As at 31 December		
	2017	**2018**	**2019**
	RMB Million	*RMB Million*	*RMB Million*
Total assets	2,413,499	2,440,877	2,732,910
Total liabilities	1,035,511	1,031,986	1,288,605
Net assets	1,377,988	1,408,891	1,444,305

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the principal factors and reasons set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

1. Background and Nature of the Non-Exempt Continuing Connected Transactions

As stated in the Letter from the Board, references are made to the announcement of the Company dated 24 August 2017 in relation to the Continuing Connected Transactions published on the Hong Kong Stock Exchange. At the extraordinary general meeting of the Company held on 26 October 2017, the Independent Shareholders approved the Continuing Connected Transactions and the annual caps for the three years ending 31 December 2020.

In order to satisfy the products and services required by the Company and CNPC, the Company would continue the Continuing Connected Transactions after 31 December 2020 and therefore will, in accordance with the HKEx Listing Rules, comply with the provisions of Chapter 14A of the HKEx Listing Rules in relation to the Continuing Connected Transactions for the next three years (i.e. from 1 January 2021 to 31 December 2023), including disclosing further information thereof in this circular and seeking approvals from the Independent Shareholders for the Non-Exempt Continuing Connected Transactions (including the relevant Proposed Annual Caps).

On 27 August 2020, the Company and CNPC entered into the New Comprehensive Agreement. The New Comprehensive Agreement has a term of three years, starting from 1 January 2021. The major terms of the New Comprehensive Agreement are largely similar to that of the Comprehensive Agreement and the main revised terms of the New Comprehensive Agreement are as follows:

(1) Updated the pricing basis for refining products, natural gas, power supply, and gas supply services provided by the Group to CNPC/Jointly held Entities;

(2) Updated the pricing basis for project design, project supervision, power supply, and gas supply services provided by CNPC to the Group; and

(3) Supplemented sharing services in the services provided by CNPC to the Group.

Details of the Non-Exempt Continuing Connected Transactions contemplated under the New Comprehensive Agreement are set out as follows:

Transaction type	Description
(1) Products and services to be provided by the Group to CNPC/Jointly-held Entities	Products and services including those relating to refined oil products, chemical products, natural gas, crude oil, water supply, electricity supply, gas supply, heating supply, quantifying and measuring, entrusted operation, material supply and other products and services as may be requested by CNPC/Jointly-held Entities for its own consumption, use or sale from time to time
(2) Engineering technology services to be provided by CNPC to the Group	Engineering technology services, mainly associated with products and services to be provided at the stage, including but not limited to exploration technology service, downhole operation service, oilfield construction service, refinery construction service and engineering design service
(3) Production services to be provided by CNPC to the Group	Production services, mainly associated with products and services to be provided, arising from the day-to-day operations of the Group, including but not limited to crude oil, natural gas, refined oil products, chemical products, water supply, electricity supply, gas supply and communications
(4) Financial service — Deposit services to be provided by CNPC to the Group	Financial services, mainly associated with deposits services

2. Pricing of the Non-Exempt Continuing Connected Transactions

The New Comprehensive Agreement details specific pricing principles for the products and services to be provided pursuant to the New Comprehensive Agreement. Such pricing principles are largely similar to that of the Comprehensive Agreement. If, for any reason, the specific pricing principle for a particular product or service ceases to be applicable, whether due to a change in circumstances or otherwise, such product or service must then be provided in accordance with the following general pricing principles:

(a) government-prescribed price (this applies to products and services such as refined oil products, natural gas, refinery and chemical construction, water supply, electricity supply, gas supply and heat supply (plus diversion costs in respect of supply of water, electricity, gas and heat)); or

(b) where there is no government-prescribed price, then according to the relevant market-oriented prices (at present, this applies to engineering design, project monitoring and management, products and services such as crude oil, chemical products, asset leasing, repair of machinery, transportation, purchase of material, quantifying and measuring and entrusted operation, etc.); or

(c) where neither (a) nor (b) is applicable, then according to:

(i) the actual cost incurred (at present, this applies to products and services such as book information and partial filing storage, maintenance of roads); or

(ii) the agreed contractual price, being the actual cost for the provision of such product or service plus an addition of not more than:

(1) 15 per cent of the cost for certain engineering technology services (at present, this applies to products and services such as geophysical prospecting, drilling, well cementing, logging, mud logging, well testing and oilfield construction) provided that, such agreed contractual price shall not be higher than the prices available for the provision of such products and services in the international market; and

(2) 3 per cent of the cost for all other types of products and services priced (at present, this applies to products and services such as downhole operations, equipment repairing and supporting, equipment antiseptic testing and research, technical services, communications, firefighting, quality inspection, storage of materials, delivery of materials and training centres).

(d) with regards to certain special products and services, the following pricing principles are adopted:

(i) for public engineering services (means engineering service in relation to oil regions, factory roads, municipal facilities, civil construction and public facilities), in accordance with the set quotas and pricing standards (the quotas specified by the People's Government of respective provinces, autonomous regions or municipalities) if the same have been set uniformly by the government; and via public tendering if no such quotas and pricing standards have been set.

In summary, pricing principles for Non-Exempt Continuing Connected Transactions are as follows:

(i) Products and services provided by the Group to CNPC/Jointly-held Entities: pricing principles include government-prescribed pricing and market-oriented pricing;

(ii) Engineering technology services provided by CNPC to the Group: pricing principles include government-prescribed pricing, market-oriented pricing (which includes tender prices) and agreed contractual price;

(iii) Production services provided by CNPC to the Group: pricing principles include government-prescribed pricing plus diversion cost (if any), market-oriented pricing, agreed contractual price and cost; and

(iv) Deposit service provided by CNPC to the Group: pricing principles include government-prescribed pricing and market-oriented pricing.

We understand that the main revised terms and conditions of the New Comprehensive Agreement in respect of the Non-Exempt Continuing Connected Transactions in comparison with the Comprehensive Agreement are that:

(1) Updated the pricing basis for refining products, natural gas, power supply, and gas supply services provided by the Group to CNPC/Jointly-held Entities;

(2) Updated the pricing basis for project design, project supervision, power supply, and gas supply services provided by the CNPC to the Group; and

(3) Supplemented sharing services in the services provided by CNPC to the Group.

3. Discussion on major pricing principles

(a) Government-prescribed price

The definition of "government-prescribed price" refers to the price in respect of certain category of services determined by the laws, regulations, decisions, orders or policies, etc. enacted by governments of the relevant countries or regions (including but not limited to the central government, federal government, provincial government, state or coalition government or any organisation responsible for domestic ruling and foreign affairs in respect to certain specified territory, irrespective of its name, organisation or form) or other regulatory departments; or

The "government-prescribed price" for different products and services is determined with reference to the following:

Type of product/service with "government-prescribed prices"	Basis for price determination
Refined oil products	According to the Notice of the National Development and Reform Commission on Further Improving the Pricing Mechanism of Refined Oil (Fa Gai Jia Ge [2016] No. 64) issued by the National Development and Reform Commission on 13 January 2016, the retail price and wholesale price of gasoline and diesel, as well as the supply price of gasoline and diesel, to special users such as social wholesale enterprises, railway and transportation, etc., shall be government-guided prices. The supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps shall be government-prescribed prices. The price of gasoline and diesel may be adjusted every ten working days with reference to

Type of product/service with "government-prescribed prices"	Basis for price determination
	the changes in the international market price of crude oil. The National Development and Reform Commission publishes the maximum retail price in ton of standard gasoline and diesel, and the supply price of gasoline and diesel to the national reserve and Xinjiang Production and Construction Corps on its portal website. The provincial price authorities shall publish the highest wholesale prices and highest retail prices of gasoline and diesel standard products and non-standard products in their regions on the designated websites.
Natural gas	According to the Circular of the National Development and Reform Commission on the Adjustment of Natural Gas Prices (Fa Gai Jia Ge [2013] No. 1246) issued by the National Development and Reform Commission on 28 June 2013, the price management of natural gas is adjusted to the gate station process. At present, the National Development and Reform Commission divides the natural gas which implements the gate station price policy into two categories: (1) Natural gas which implements market-adjusted price, including unconventional gases such as shale gas, coal-bed methane and coal gas, and offshore domestic natural gas supplied to the market; imported gas supplied to the market through imported LNG and imported pipeline gas projects put into operation after the end of 2014; natural gas supplied to the market through gas storages and trading platforms such as Shanghai Petroleum and Natural Gas Exchange and Chongqing Petroleum and Natural Gas Exchange; natural gas supplied to LNG manufacturers, fertilizer manufacturers and other direct-supply industrial enterprises, etc. (2) Natural gas which implements government-guided price. For the natural gas that does not meet the above conditions on implementing government-guided price, the base price of the gate station in each province shall be the basis and the exact price shall be negotiated by the supplying party and the requisitioning

Type of product/service with "government-prescribed prices"	Basis for price determination
	party without exceeding the specified range (i.e. up to 20% and down unlimited). The natural gas which implements the government-guided price mainly consists of onshore domestic conventional natural gas supplied to city gas companies and pipeline natural gas imported through the imported pipeline gas project put into operation before the end of 2014.
Refinery and chemical facilities construction (including construction and installation)	For the construction phase, prices shall be determined by standards prescribed by the People's Government of the respective province, autonomous region and municipalities. For the installation phase, prices shall be determined by industrial standards.
Water supply	In accordance with the National Guidelines on Water Tariffs, issued by the former National Planning Committee and the former Ministry of Construction on 23 September 1998 and revised by the National Development and Reform Commission and the former Ministry of Construction on 29 November 2004, the urban water supply price shall be government-prescribed prices, and the specific pricing authority shall be executed based on the price management catalogue.

Type of product/service with "government-prescribed prices"	Basis for price determination
Electricity supply	In line with the Electricity Law issued by Standing Committee of the National People's Congress on 28 December 1995 and revised on 27 August 2009, 24 April 2015 and 29 December 2018, for the power purchase price of a power network spanning different provinces, autonomous regions, or municipalities, as well as in a provincial power network, a proposal shall be made through consultation by the enterprises engaged in power production and power network operation, and shall be examined and approved by the pricing administrative department of the State Council. The on-grid electricity price in an independent power network shall be negotiated and proposed by the power production enterprise and the power network operating enterprise, and submitted to the pricing administrative department with management authority for approval. For the power produced by locally funded power production enterprises, if an independent power network within different regions of the province is formed or the power is generated for local use, the price shall be under the control of the People's Government of the province, autonomous region or municipality
Gas supply	According to the Regulation on the Administration of Urban Gas (PRC State Council Order No. 666 issued by the State Council on 19 October 2010 and revised on 6 February 2016), the pricing bureau of the People's Government above the county level could prescribe and adjust the selling price for pipeline gas.
Heat supply	Prices for the supply of heat are prescribed by the local governments.

Save as disclosed above, the macro government-prescribed prices are updated in accordance with the development of national economy and policies to be issued from time to time. The prices prescribed by the People's Government of the respective provinces, autonomous regions and municipalities are updated in accordance with the local actual situations. The Company has paid and will continue to pay close attention to the updates of government-prescribed prices and determine the prices for relevant products and services accordingly.

In order to better understand pricing mechanism of government-prescribed price, we have reviewed the relevant documents regarding government-prescribed price and have discussed with the management of the Company regarding the implications of the relevant documents. As advised by the management of the Company, the Company will follow the service and product prices determined from time to time by the Central Government or various regional governments according to the government-prescribed price documents published by the Central Government. In cases where there are no regional government determined service and products prices, market-oriented prices will be used within the price ceilings set by the central government-prescribed pricing documents. The actual prices implemented by the Company will be arrived at after arms-length negotiations, and will be no less favourable than those provided to/by independent third parties. In this regard, we concur with the view of the Directors that such price determination is fair and reasonable. According to the Letter from the Board, the macro government-prescribed prices are updated in accordance with the development of national economy and policies to be issued from time to time. The prices prescribed by the People's Government of the respective province, autonomous region and municipalities are updated in accordance with the local practical situations. Meanwhile, the Company's Reform and Enterprise Management Department, originally called internal control and risk management department, the Audit Committee of the Board of the Company and the Supervisory Committee shall each conduct internal assessments, supervision and examination on the internal control measures and the financial information of the Company, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Furthermore, they convene meetings twice a year to discuss and assess the implementation of connected transactions. The Company will pay close attention to the updates of government-prescribed prices and determine the prices for relevant products and services accordingly. In addition, the management of the Company has confirmed that if the government prescribed price documents will be updated during the following three years, the Company will implement according to the updated government prescribed price documents and regional government determined prices, with the Company's Price and Taxation department responsible for overseeing, determining, and updating the prices considering the relevant government prescribed price documents among other sources.

As advised by the Company's PRC legal counsel, the pricing guidance documents referenced above for various products and services are currently in force and have national authority.

(b) Market-oriented price

The definition of "market-oriented price" refers to the price determined in accordance with the following order:

(i) with reference to the price charged, by at least two independent third parties, in areas where such type of product or service is provided and on normal terms in the area where the product or service of comparable scale is being provided at that time; or

(ii) with reference to the price charged, by at least two independent third parties, in nearby areas where such type of product or service is provided and on normal terms in the area or country adjacent to the area where the product or service of comparable scale is being provided at that time.

Further, the New Comprehensive Agreement stipulates, among other things, that for the financial services provided by CNPC and Jointly Held Entities:

(i) the deposit services shall be provided at prices determined in accordance with the relevant interest rate and standard for fees as promulgated by the People's Bank of China. Such prices must also be not less favourable to the Group than those offered by other independent third parties.

According to the Letter from the Board, when adopting pricing mechanism market-oriented price, the Company will consider at least two independent third parties' price quotation. As advised by the Company's management, we note that the Company shall seek to obtain market-oriented prices through various channels actively, e.g. considering the comparable transaction prices between the Company and independent third parties for the same period and the transaction prices among independent third parties for the same period. Meanwhile, we have obtained and reviewed the regulations for the management of bidding and tendering of the Company. According to the regulations for the management of bidding and tendering of the Company, in terms of the product or service of which the transaction amount reaches the particular standard prescribed in regulations, the Company shall obtain the above-mentioned market-oriented prices through tendering and the final suppliers of products or services are determined based on the price quotations and other factors including quality of products and services, specific needs of the transaction parties, technical advantages of the suppliers, performance capabilities of the suppliers, and qualification and relevant experience of the suppliers. The operating entities or the tendering centre of the Company are responsible for the preparation of tendering requirement documents. A tendering committee comprised by both internal and external experts will be established to conduct the tendering process for each project. If the terms offered by CNPC are considered to be comparable to or better than other bidders by the tendering committee after taking into consideration the above-mentioned factors, CNPC will be selected as the supplier. In terms of the product and service of which the transaction amount is lower than the particular standard prescribed in regulations, the Company shall obtain the above-mentioned market-oriented prices by inviting suppliers to the competitive negotiations and the final suppliers of products or services are determined based on the price quotations and other factors including quality of products and services, specific needs of the transaction parties, technical advantages of the suppliers, performance capabilities of the suppliers, and qualification and relevant experience of the suppliers. The relevant department of the operating entities to which the products or services will be supplied shall be responsible for comparing the terms of these suppliers. If the terms offered by CNPC are considered to be comparable to or better than other suppliers by such department after taking into consideration the above-mentioned factors, CNPC will be selected as the supplier upon the final approval by the management team of the operating entity.

When we analyse the Company's pricing principle of market-oriented price, we also referred to comparable companies' practice, i.e. companies that are listed on the Hong Kong Stock Exchange and operating in the same industry as the Company. We note that the pricing principle of CNOOC Limited (883.HK) for its non-exempt continuing connected transactions is that, when there is no government-prescribed price, it makes reference to the price charged by at least two independent third parties (if applicable) in areas (or nearby areas) providing such type of services on normal terms with comparable scale at that time. We also note that China Petroleum & Chemical Corporation (386.HK) makes reference to relevant market prices for products or services (including but not limited to crude oil, refined oil products, chemical products, coal, asset leasing, repair of machinery, transportation, warehousing, and purchase of material) when there is no government-prescribed price. We therefore consider adopting market-oriented price as the pricing principle is of industry norm and common in the normal business course. Based on the above, we are of the view that, when there is no government-prescribed price, adopting market-oriented price for Non-Exempt Continuing Connected Transactions is fair and reasonable as far as Independent Shareholders are concerned.

(c)(i) Actual cost incurred

For the pricing mechanism (c), as stated in the Letter from the Board and advised by the Company's management, in order to ensure the reasonableness and accuracy of the actual cost for the relevant products and services, the transaction parties under the Company and CNPC will generally negotiate the cost for the products and services to be provided in advance. The cost will be determined based on the number of consumed units and unit price. The number of consumed units will be determined by the parties according to the cost-efficient level or the average level of similar projects in history. The unit price will be determined by the parties with reference to the market-oriented price for cost. Meanwhile, the Company and CNPC have jointly set up a construction cost centre comprised by experienced technical experts, which is responsible for the formulation of the cost standards for certain engineering technology services provided by CNPC according to the above-mentioned mechanism. After the provision of relevant products or services, the internal auditors of the Group will review the actual cost of these products or services prepared by CNPC with reference to the negotiation results prior to the transactions or the cost standards formulated by the construction cost centre. The settlement and payment shall only be made after the review is approved by the internal auditors.

(c)(ii)Agreed contractual price

As stated in the Letter from the Board, for Non-Exempt Continuing Connected Transactions, only engineering technology services and production services provided by CNPC for the Company will adopt agreed contractual price as the pricing principle when there is no government-prescribed price or market-oriented price. As advised by the Company, this pricing principle has been adopted since the listing of the Company on the Hong Kong Stock Exchange and has been appropriately implemented during the past three years. As advised by the Company, we understand that relevant transactions (engineering technology services and production services) using agreed contractual price for pricing, are based on the complete production chain comprising of established facilities integrated with CNPC's facilities. Thus, considering the Group's main oil fields and refinement and production facilities are scattered across different regions, some of which are in remote areas with harsh operating conditions, which is difficult to identify alternative suppliers and/or no direct market comparable considering the cost of facilities and networks.

When we analyse the Company's pricing principle of agreed contractual price, we also referred to comparable companies' practice, i.e. companies that are listed on the Hong Kong Stock Exchange and operating in the same industry as the Company. We note that CNOOC Limited (883.HK) and China Petroleum & Chemical Corporation (386.HK) also adopted similar pricing principles for their non-exempt continuing connected transactions. Specifically, China Petroleum & Chemical Corporation (386.HK) applies agreed price (determined as reasonable cost incurred plus reasonable profit) for supply of utility engineering products, which are comparable to the production services, and engineering technology services provided by CNPC to the Company, in terms of transaction nature. Thus, we consider the agreed contractual price is of industry norm and common in the normal business course. Based on the above, we are of the view that when there is no government-prescribed price or market-oriented price, adopting agreed contractual price for Non-Exempt Continuing Connected Transactions is fair and reasonable as far as Independent Shareholders are concerned.

Cost plus 15%

For the pricing mechanism (c) regarding the 15% margin, the management of the Company has advised that they are of the view that the additional 15% margin ("**15% Margin**") respective to the engineering technology services under categories of products and services stated above are what they believe to be fair and reasonable and in the interest of the Company and the Shareholders as a whole. In order to assess the fairness and reasonableness of the 15% Margin as set out in pricing mechanism (c) above, we have, on a best effort basis, conducted a search of companies that are principally engaged in similar onshore engineering technology services provided by the CNPC to the Group and identified two relevant oilfield servicing companies listed on the Hong Kong Stock Exchange. However, taking into account that the total assets of CNPC (with the Group excluded) are over US$10 billion, as at 31 December 2019, according to the financial information we obtained from the Company, and no such relevant company on the Hong Kong Stock Exchange is of a comparable size to CNPC. Thus, we expanded our search to companies listed on the New York Stock Exchange, and have, to the best of our knowledge, identified five relevant oilfield servicing companies listed on the New York Stock Exchange with total assets as at 31 December 2019 of each of them over US$10 billion (the total 7 comparable companies together called the "**Comparable Companies**") providing relevant engineering technology services. These Comparable Companies had over approximately 80% of their revenue derived from the provision of oil and gas services including drilling, evaluation, production and completion of oil and gas wells all over the world. We understand the scope of services of the Comparable Companies are of a similar nature compared with the engineering technology services offered by CNPC to the Group, and we consider, to the best of our knowledge, that they represent an exhaustive list of relevant comparable companies based on the above criterion and the selection principles and are able to provide fair and representative samples for the analysis.

Based on our research from publicly available information and the annual reports of the respective Comparable Companies, we understand that there is no segmental profit margin information relating to, in particular, the engineering technology services for the Comparable Companies, so as to allow us to compare to the specific connected transactions directly and the average Earnings Before Interest and Taxes ("**EBIT**") margins of the Comparable Companies are not fully comparable to the term of the 15% Margin to be charged by CNPC. However, considering that over 80% of the revenue of the Comparable Companies was derived from their segments of a similar nature as the engineering technology services offered by CNPC to the Group, we compare the average EBIT margins of the Comparable Companies to the term of 15% Margin to be charged by CNPC in relation to the engineering technology services, in order to assess if the 15% Margin to be charged by CNPC is reasonably determined such that it shall be no less favourable to the Company than can be offered by independent third parties.

The tables below illustrate the EBIT margins of the Comparable Companies for each of the years ended 31 December 2015, 2016, 2017, 2018 and 2019, respectively. We believe that comparing the range of and the average of EBIT margins of the previous five years is reasonable due to the fact that such 5 years range will not be overly affected by isolated events happened that will cause fluctuations in EBIT margins but also not of a too long time period as to affect the extent of comparability with CNPC.

No.	Ticker	Comparable Companies listed on the NYSE Company Name	Total Assets as at 31 December 2019 *US$ Million*	EBIT Margins 2015	2016	2017	2018	2019	Average
1	SLB	Schlumberger Ltd	56,312	15.7%	8.2%	8.8%	9.7%	9.1%	10.3%
2	BHGE	Baker Hughes[(1)]	53,369	12.3%	6.2%	n.m.	n.m.	n.m.	9.3%
3	HAL	Halliburton Co	25,377	9.8%	4.0%	9.7%	11.4%	9.2%	8.8%
4	RIG	Transocean Ltd[(2)]	24,105	29.6%	28.6%	20.1%	n.m.	n.m.	26.1%
5	VAL	Valaris Plc[(3)]	16,931	37.0%	33.5%	n.m.	n.m.	n.m.	35.2%

No.	Ticker	Comparable Companies listed on the HKSE Company Name	Total Assets as at 31 December 2019 *RMB Million*	EBIT Margins 2015	2016	2017	2018	2019	Average
1	3337	Anton Oilfield Services Group	9,507	8.8%	10.1%	22.8%	25.7%	23.7%	18.2%
2	1623	Hilong Holding	8,541	17.4%	25.7%	12.1%	17.0%	17.1%	17.9%

Statistical data	EBIT Margins 2015	2016	2017	2018	2019	Average
Maximum	37.0%	33.5%	22.8%	25.7%	23.7%	28.5%
Median	15.7%	10.1%	12.1%	14.2%	13.1%	13.0%
Minimum	8.8%	4.0%	8.8%	9.7%	9.1%	8.1%
Average	18.7%	16.6%	14.7%	15.9%	14.8%	16.1%

(1) According to the annual report of Baker Hughes, it underwent business restructuring since late 2016 and as a result its EBIT margin may not be meaningful as a reference point for this exercise from that point onward

(2) According to the annual report of Transocean Ltd, it completed two major acquisitions in 2018 and its financials in 2018 and 2019 have been adjusted for the acquisitions, and as a result its EBIT margin may not be meaningful as a reference point for these two years

(3) According to the annual report of Valaris Plc, it has undergone various merger transactions since 2017 and as a result its EBIT margin may not be meaningful as a reference point for this exercise from that point onward

(4) EBIT margins of Comparable Companies was adjusted for those non-recurring items including but not limited to impairment loss, other loss, merger expenses

Source: Annual Reports, Capital IQ as at 18 August 2020

The EBIT margins of the Comparable Companies from 2015 to 2019 ranged from approximately 4.0% to 37.0%, while their average EBIT margin were approximately 18.7%, 16.6%, 14.7%, 15.9% and 14.8%, for each of the years ended 31 December 2015, 2016, 2017, 2018 and 2019, respectively, and the pricing mechanism referred to (c) above lies within the range of EBIT margin of the Comparable Companies.

Having considered that i) the 15% Margin was determined with reference to the Company's prospectus dated 27 March 2000 and the circular dated 8 September 2017; ii) is within the range of the average of Comparable Companies EBIT margins; iii) is lower than the average of five-year EBIT margins (16.1%) of the Comparable Companies; iv) based on the information provided by the Group, overall gross profit margin of the engineering technology services provided by the CNPC to the Group are lowed than 3% for the years ended 31 December 2018 and 2019; v) based on the New Comprehensive Agreement, the agreed contractual price shall not be higher than price available for the provision of such products and services in the international market; vi) the reasons of the Group using cost-plus pricing mechanism and the internal control mechanisms in place to ensure the margins are no higher than the 15% Margin; and vii) we note from the annual reports of the Company for 2017 to 2019 that the auditors of the Company have reviewed the Non-Exempt Continuing Connected Transactions for each of the financial years ended 31 December 2017, 2018, and 2019, and confirmed that the transactions were conducted in the manner stated in Rule 14A.56 of the HKEx Listing Rules. Additionally, CNPC has extensive experience in exploration and development of crude oil and natural gas projects in the world, offering premier engineering technology services to the Group. CNPC is also one of the few companies in the PRC which provide unique and high quality petrochemical related engineering technology services. Furthermore, the services and terms offered by independent third parties are difficult to match the same quality services provided by CNPC. Additionally, CNPC has had a long-term relationship with the Group providing relevant services, and is familiar with the Group and established a good cooperative model and accumulated rich cooperative experience to create synergy. CNPC offers advantages including safety, reliability, technical expertise, understanding of existing facilities and experience in providing engineering technology services, which enable CNPC to be competitive.

In light of the aforesaid, we are of the opinion that the 15% Margin and such agreed contractual price charged by CNPC to the Group shall not be higher than the prices available for the provision of such products and services in the international market is fair and reasonable so far as the Independent Shareholders are concerned.

(d)(i) Quotas and pricing standards set by government or public tendering

Regarding pricing mechanism (d)(i), the Company will proceed in accordance with the set quotas and pricing standards if the same have been set uniformly by the government of the relevant countries or regions, which is consistent with pricing policy (a). When there is no government-prescribed pricing standards for public engineering projects, the management of the Company advised that the public tender pricing will be adopted in accordance with the Company's internal tender procedures, with the bidders meeting all the necessary requirements set out in the invitation to tender (including but not limited to qualification, experience, capability and previous relationship, etc.) and the general conditions for the optimal bid quoted. The Company's tender process is managed by the Material Procurement Centre of the Company in order to ensure that the transactions are in the interests of the Company and the Independent Shareholders as a whole.

4. Internal control

According to the Letter from the Board, in order to ensure that the Non-Exempt Continuing Connected Transactions ending 31 December 2023 is in accordance with the New Comprehensive Agreement, the Company's external auditors shall conduct an interim review and a yearend audit on the Company's internal control measures. Meanwhile, the Company's Reform and Enterprise Management Department, originally called internal control and risk management department, the Audit Committee of the Board of the Company and the Supervisory Committee shall each conduct internal assessments, supervision and examination on the internal control measures and the financial information of the Company, in order to ensure that the internal control measures in respect of connected transactions remain complete and effective. Furthermore, they shall convene meetings twice a year to discuss and assess the implementation of connected transactions.

We have confirmed with the Company's management and understood that the Company has established a series of internal control measures to ensure that the pricing basis for continuing connected transactions of the Company will follow the prescribed pricing mechanism under its framework agreement, including:

(1) For products and services where the government-prescribed price applies, when any laws, regulations or other regulatory documents in relation to government-prescribed price in respect of certain category of products or services come into effect, the pricing department of the Company will forward these regulatory requirements to its operating entities and require all the operating entities to follow the government-prescribed price. The internal audit department of the Company will review the enforcement of the government-prescribed price by the operating entities with from time to time. All the operating entities shall accept the law enforcement supervision by the pricing authorities of the government;

(2) For products and services where the market-oriented price applies, all the operating entities of the Company shall comply with the regulations for the management of bidding and tendering of the Company. In terms of the product or service of which the transaction amount reaches the particular standard prescribed in regulations, all the operating entities shall determine their suppliers of products and services through tendering. The operating entities or the tendering centre of the Company are responsible for the preparation of tendering requirement documents. A tendering committee comprised by both internal and external randomly picked experts will be established to conduct the tendering process for each project and determine the final suppliers. In terms of the product and service of which the transaction amount is lower than the particular standard prescribed in regulations, all the operating entities shall determine their suppliers of products and services by inviting suppliers to the competitive negotiations. The relevant department of the operating entities to which the product or service will be offered is responsible for comparing the terms of these suppliers. The comparison results will be submitted to the management team of the operating entity for final approval;

(3) For products and services where the actual cost or agreed contractual price applies, the operating entities of the Company and CNPC will generally negotiate the cost for the products and services to be provided in advance. Meanwhile, the Company and CNPC have jointly set up a construction cost centre comprised by experienced technical experts, which is responsible for the formulation of the cost standards for certain engineering technology services provided by CNPC. After the provision of relevant products or services, the internal auditors of the Group will review the actual cost of these products or services prepared by CNPC with reference to the negotiation results prior to the transactions or the cost standards formulated by the construction cost centre. The settlement and payment shall only be made after the review is approved by the internal auditors;

(4) The Company's reform and enterprise management department shall regularly conduct internal assessments on the internal control measures every year to ensure that the internal control measures in respect of connected transactions remain complete and effective;

(5) The Board shall review the financial reports containing the disclosure and analysis of the execution of the continuing connected transaction on a semi-annual basis. The review will mainly include: whether the Company and relevant connected persons follow the continuing connected transaction agreements (including the prescribed pricing mechanism thereunder) during the year or half of the year and whether the actual transaction amounts incurred between the Company and relevant connected persons are within the annual caps as approved at the shareholders' general meeting;

(6) The independent non-executive Directors shall conduct annual review on the continuing connected transactions and provide annual confirmations in the annual reports of the Company on whether the continuing connected transactions are conducted (i) in the ordinary course of business of the Company; (ii) in accordance with normal commercial terms or better and on terms that are fair and reasonable; (iii) in accordance with the terms of the relevant agreements; and (iv) in the interest of the Company and the Shareholders as a whole;

(7) The audit committee of the Company shall conduct review on the annual financial statements, annual report, interim financial statements and interim report which include the disclosure and analysis of the execution of the continuing connected transactions and opine on the continuing connected transactions disclosed in such reports and financial statements, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual caps;

(8) The external auditors of the Company shall report on the continuing connected transactions of the Company every year and issue a letter to the Board in respect of the continuing connected transactions of the Company in accordance with the HKEx Listing Rules;

(9) The Supervisory Committee shall supervise the continuing connected transactions and review the annual financial report and interim financial report which include the execution of the continuing connected transactions every year. The Supervisory Committee shall also review whether the connected transactions between the Company and connected persons comply with the regulatory requirements of domestic and overseas places where the Company is listed, whether the prices are fair and reasonable and whether there is any act which is detrimental to the interests of the Company and the Shareholders.

To evaluate the sufficiency and effectiveness of the Company's internal control measures, we have reviewed the Company's internal control policy and discussed with the Company's management to understand the relevant policy. We have also performed the following procedures:

(i) discussed with the Company's reform and enterprise management department in order to understand the implementation and execution of the internal control measures and confirmed that there was no material discrepancy found for the past three years;

(ii) reviewed the internal control management handbook and internal control assessment management methods;

(iii) reviewed the advice provided by the Audit Committee and Supervisory Committee of the Company with regard to the internal control measures for connected transactions on a sampling basis;

(iv) reviewed sample documents (including, among other things, invoices, contracts, and other related documents) with respect to the adoption of (a) government-prescribed price; (b) market-oriented price; and (c) agreed contractual price under the Non-Exempt Continuing Connected Transactions conducted with CNPC/Jointly-held Entities during the past three years, and we note that they are consistent with the pricing policy as described above; and

(v) reviewed the audited results as stated in the annual reports of the Company and reviewed unaudited results as stated in the interim reports of the Company prepared by the external auditor regarding the Non-Exempt Continuing Connected Transactions, respectively.

We have also discussed with the management of the Company and we understand that the internal control policy regarding connected transactions was set up in 2003 and commenced since 2006. Therefore, we concur with the view of the Directors that the internal control measures adopted by the Company are sufficient to ensure that the future prices will be set in accordance with the pricing bases for each of the Non-Exempt Continuing Connected Transactions.

For detailed description of the terms in relation to the New Comprehensive Agreement, please refer to the Letter from the Board. Based on the above, the priority is set from (a) to (c) such that the price mechanisms in (b) and (c) would only apply where the preceding price mechanism(s) are inapplicable. As (a) and (b) are based on the applicable government-prescribed prices and market-oriented prices, including the applicable regional or national market prices, while (d)(i) is only applicable for public engineering services which is based on government-prescribed price, or based on tendering if there is no government-prescribed price, we are of the opinion that the above mechanism is fair and reasonable as far as the Independent Shareholders are concerned.

5. Reasons for and Benefits of the Non-Exempt Continuing Connected Transactions

As stated in the Letter from the Board, the Company believes that the Non-Exempt Continuing Connected Transactions will be beneficial to the continued operation and development of the Group. The reasons for and benefits of such Non-Exempt Continuing Connected Transactions have been discussed in the Letter from the Board in details, which mainly embrace the competitive advantages of CNPC in providing such services given its experience, technology and cost advantages, higher technological and quality standards that it can provide and strong financial capabilities. In fact, the transactions contemplated under the New Comprehensive Agreement have been carried on for over 10 years. Actual practices provided that the Continuing Connected Transactions benefit the continued operation and development of the Company.

Additionally, the Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Company. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Due to the long-term relationship between the Company and CNPC, the Directors (including the independent non-executive Directors) consider that: (a) it is beneficial to the Company to continue to enter into the Continuing Connected Transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Group's business; (b) the Continuing Connected Transactions with CNPC have been conducted on normal commercial terms or on terms no less favourable than those available to the Group from independent third parties, under prevailing local market conditions, and were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the Proposed Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

We noted from the annual reports of the Company for 2017 to 2019 that the auditors of the Company have reviewed the Non-Exempt Continuing Connected Transactions for each of the financial years ended 31 December 2017, 2018 and 2019 (the "**Prior Year Transactions**") and confirmed that the Prior Year Transactions were conducted in the manner stated in Rule 14A.56 of the HKEx Listing Rules.

In light of the aforesaid analysis, we are of the view that the Non-Exempt Continuing Connected Transactions are being conducted on normal commercial terms or on terms no less favourable to the Company than those with independent third parties, and is in the interest of the Company and the Independent Shareholders as a whole.

6. Proposed Annual Caps of the Non-Exempt Continuing Connected Transactions

The Non-Exempt Continuing Connected Transactions are subject to the Proposed Annual Caps whereby for each of the three years ending 31 December 2023, the monetary value of the Non-Exempt Continuing Connected Transactions will not exceed the applicable annual amounts as stated in the Letter from the Board.

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the management of the Company about the basis and underlying assumptions used in the determination of the Proposed Annual Caps.

Historical transaction amounts of the Non-Exempt Continuing Connected Transactions for each of the two years ended 31 December 2019 and the six months ended 30 June 2020, the historical annual caps for each of the three years ending 31 December 2020 and the Proposed Annual Caps of the Non-Exempt Continuing Connected Transactions for each of the three years ending 31 December 2023 are set out as follows:

		Historical transaction amounts *RMB Million*			**Historical annual caps** *RMB Million*			**Proposed Annual Caps** *RMB Million*		
		For the years ended 31 December		**For the period ended 30 June**	**For the years ending 31 December**					
		2018	**2019**	**2020**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
6.1	Products and services to be provided by the Group to CNPC and the Jointly-held Entities	84,064	99,574	33,051	153,716	153,861	155,390	150,000	147,200	144,600
6.2	Engineering technology services to be provided by CNPC to the Group	147,925	175,804	39,579	208,103	203,908	198,537	198,200	197,500	197,000
6.3	Production services to be provided by CNPC to the Group	151,950	148,128	48,132	228,730	220,525	212,833	207,700	205,500	204,500
6.4	Financial services — deposit services to be provided by CNPC to the Group[1]	61,345	61,692	58,417	63,000	63,000	63,000	55,000	55,000	55,000

(1) Historical transaction amounts and proposed Annual Caps refer to aggregate of maximum daily deposits made by the Group with CNPC and the interests received in respect of these deposits

6.1 Products and services to be provided by the Group to CNPC and the Jointly-held Entities

The Proposed Annual Caps for the products and services to be provided by the Group to CNPC and the Jointly-held Entities have been determined with reference to:

(a) the historical transactions and transaction amounts in providing products and services by the Group to CNPC/Jointly-held Entities;

(b) the estimated business development of the Group and CNPC;

(c) the potential fluctuations in the prices of crude oil, petrochemical products, natural gas, and other oil products and services both in the international market and in the domestic market; and

(d) quantities of crude oil and natural gas reserves required (by CNPC as decreed by the government).

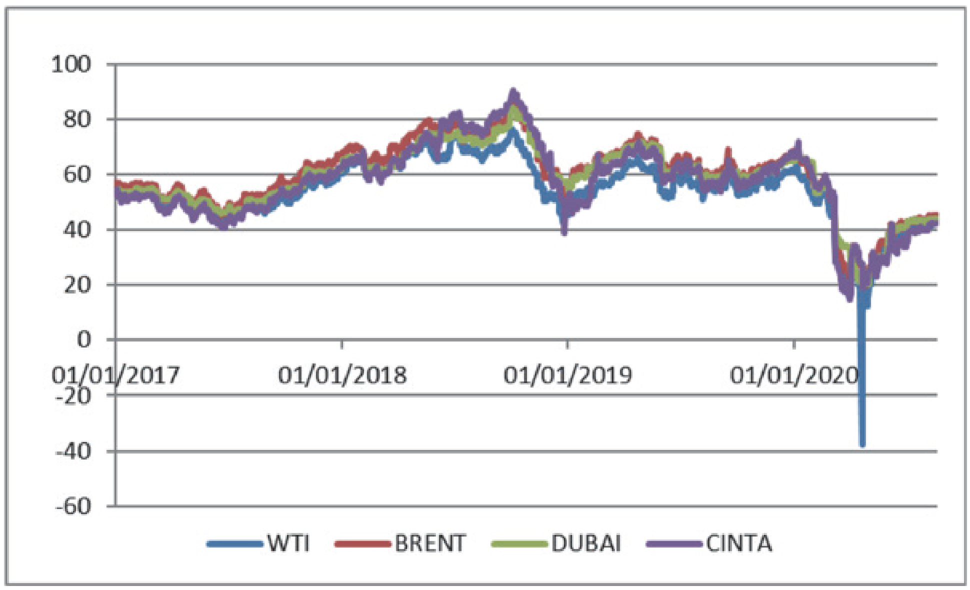
Based on the information provided by the Company, the historical transaction amounts of products and services provided by the Group to CNPC and the Jointly-held Entities were approximately RMB84,064 million and RMB99,574 million for the two years ended 31 December 2019 respectively, representing approximately 54.7% and 64.7% of the historical annual caps respectively. As advised by the management of the Company, the main reasons for the discrepancy between the historical annual caps and historical amounts incurred for the two years ended 31 December 2019 are as follows: (1) international trade accounted for a large proportion of this category of connected transactions, and its uncertainly is far greater than other businesses; (2) having considered that the Group and CNPC and most of their respective subsidiaries are located in the same region, the Group wished to supply more products and services to CNPC in order to save logistic costs and improve efficiency. However, as there is competition from independent third parties on the market, products and services actually provided by the Group to CNPC were less than anticipated. In terms of the Proposed Annual Caps for products and services to be provided by the Group to CNPC and the Jointly-held Entities for each of the three years ending 31 December 2023, the expected amounts in products and services to be provided by the Group to CNPC and the Jointly-held Entities will decrease by approximately 3.5% in 2021 as compared to 2020, then will decrease approximately 1.9% in 2022 as compared to 2021, and decrease approximately 1.8% in 2023 as compared to 2022.

As advised by the management of the Company, the Proposed Annual Caps regarding products and services to be provided by the Group to CNPC and the Jointly-held Entities in the three years ending 31 December 2023 is based on the estimated development of the business of the Group and CNPC. We have discussed with the management in relation to the Company's business development objectives and the strategies to be employed for the coming three years, and we are of the view that the estimation of the Company's business development is consistent with its business development objectives and the strategies to be employed. Furthermore, the Proposed Annual Caps are determined by considering: (i) the historical transactions and transaction amounts in providing products and services by the Group to CNPC and the Jointly-held Entities; (ii) the future business development of the Group and CNPC; (iii) the anticipated price fluctuations for crude oil and natural gas in the next three years ending 31 December 2023; (iv) CNPC is responsible for the national crude oil and natural gas reserves of the PRC and such reserve needs to be updated by the CNPC annually in accordance with quality requirements, therefore, the Company must provide the crude oil and natural gas reserves in accordance with the corresponding demand in order to fulfil the requirements. Furthermore, we understand from the management of the Company that the decrease in the Proposed Annual Caps in 2021 as compared to 2020 is mainly due to the lower level of crude oil and refined oil products prices compared to those in 2017 when the Company determined the annual caps for three years ending 31 December 2020.

In arriving at the Proposed Annual Caps for products and services to be provided by the Group to CNPC and the Jointly-held Entities for the three years ending 31 December 2023, the Group has estimated the future crude oil, natural gas, and other refined oil products prices based on experience with reference to the historical crude oil, natural gas, and other refined oil products price fluctuations and expected future price fluctuations. We are given to understand that the Company estimated the international crude oil prices will remain at a steady level at US$60.0 per barrel on average in the coming three years considering the significant fluctuation in the first half 2020 and the Company was of the view that the crude oil prices should steadily recover from this short-term impact. The Company also considered the relationship between refined oil products and crude oil prices, and according to the management of the Company's historical experience with the PRC government's control on domestic refined oil products prices, especially refined oil prices, the Company expects that the price of refined oil products will, along with crude oil prices, remain steady. According to previous description of the oil products government-prescribed pricing policy, we also note that the price of gasoline and diesel will change according to fluctuations in international oil prices, which is adjusted every ten working days.

Below is the world's major crude oil index from 1 January 2017 to 18 August 2020:

World's Major Oil Price Index



Source: Bloomberg as at 18 August 2020

According to the information obtained from Bloomberg, the prices of crude oil has been fluctuating significantly since 2017 and the closing prices of WTI from 1 January 2017 to 18 August 2020 ranged from about US$-37.6 per barrel to US$76.4 per barrel. According to the Annual Energy Outlook 2020 by U.S. Energy Information Administration, they predict that the international crude oil prices for 2021, 2022 and 2023 will gradually recover, with average prices of approximately US$61.6, US$64.0 and US$65.3 per barrel, respectively.

Taking into account the historical crude oil price fluctuations and the future oil prices as estimated in the Annual Energy Outlook 2020 by U.S. Energy Information Administration, we consider that the Company's estimation of the international crude oil prices in the next three years to be reasonable.

According to National Development and Reform Commission document (NDRC Price [2015] 351) "Rationalizing Prices of Natural Gas Used by Non-Residential Consumers", we note that the prices of existing and incremental gas would be merged, to rationalize the price of natural gas used by non-residential consumers, which was implemented on 1 April 2015. According to the PRC State Council document ([2018] 31) "Promoting the Coordinated and Stable Development of Natural Gas", we note that "rationalising natural gas pricing mechanism" has been set as a policy objective. In August 2017, the National Development and Reform Commission published "Notice of the National Development and Reform Commission on

Lowering the Non-residential Natural Gas Gate Station Benchmark Price" (NDRC Price [2017] 1582) which stated natural gas gate station benchmark prices for various provinces in the PRC, ranging from RMB1050 per thousand cubic meter to RMB2080 per thousand cubic meter. In April 2019, the National Development and Reform Commission published "Notice of the National Development and Reform Commission on Adjustment of Natural Gas Gate Station Benchmark Prices" (NDRC Price [2019] 562), in which the gate station benchmark prices after adjustment for various provinces in the PRC range from RMB1030 per thousand cubic meter to RMB2040 per thousand cubic meter. Therefore, we concur with the Company's estimation of the natural gas prices to remain stable for the following three years ending 31 December 2023.

Given the dominant position of the Group in the petroleum and petrochemical industry in the PRC, and the potential increase in activities of CNPC and the Jointly-held Entities, the quantities of future transactions between the Group and CNPC and the Jointly-held Entities may increase. We are of the view that given the uncertainty in the world energy market, the fluctuating energy prices and growing business development of the Group, the Proposed Annual Caps will enable the Group to provide reasonably steady supply to CNPC and the Jointly-held Entities.

6.2 Engineering technology services to be provided by CNPC to the Group

The Proposed Annual Caps for the provision of engineering technology services have been determined with reference to:

(a) the completed transactions and transaction amounts for the engineering technology services provided by CNPC to the Group; and

(b) the estimated business development of the Group.

Based on the information provided by the Company, the historical transaction amounts of engineering technology services provided by CNPC to the Group were approximately RMB147,925 million, and RMB175,804 million for the two years ended 31 December 2019 respectively, representing approximately 71.1% and 86.2% of the historical annual caps respectively. As advised by the management of the Company, the main reasons for the discrepancy between the historical annual caps and historical amounts incurred for the two years ended 31 December 2019 are as follows: CNPC's competitiveness in the industry are comparably stronger as it has human resource advantages, technological advantages and cost advantages, etc. and when forecasting the historical annual caps, the Group has considered the possibility that CNPC would participate in all of the relevant projects. However, in reality, CNPC was unable to do so due to specific conditions of different projects. In terms of the Proposed Annual Caps for engineering technology services to be provided by CNPC to the Group for each of the three years ending 31 December 2023, the expected amounts in engineering technology services to be provided by CNPC to the Group will decrease by approximately 0.2% in 2021 as compared to 2020, then will decrease by approximately 0.4% in 2022 as compared to 2021 and then decrease by approximately 0.3% in 2023 as compared to 2022.

As advised by the management of the Company that the Proposed Annual Caps of engineering technology services to be provided by CNPC to the Group is based on the estimated business development plan, and according to the Company's construction plan for the three years ending 31 December 2023, the slight decrease in the Proposed Annual Caps of 2021, 2022 and 2023 as compared to 2020 is mainly due to the lower level of crude oil and refined oil products prices compared to those in 2017 when the Company determined the annual caps for three years ending 31 December 2020.

As advised by the management of the Company, the Group has obtained engineering technology services from CNPC in the ordinary course of business. CNPC has extensive experience in exploration and development of crude oil and natural gas projects in the world, offering premier engineering technology services to the Group. CNPC is also one of the few companies in the PRC which provide quality petrochemical related engineering technology services.

According to the 2019 Annual Report, the transaction amounts of engineering technology services provided by CNPC to the Group for the two years ended 31 December 2019 accounted for approximately 57.8% and 59.2% of each corresponding year's total capital expenditure of the Group. We understand from the management of the Company that the Proposed Annual Caps of engineering technology services to be provided by CNPC to the Group for 2021 to 2023 are determined by considering (i) the possibility of a substantial level of construction projects obtained by CNPC based on the above-mentioned advantages offered by CNPC; and (ii) the historical capital expenditure, historical caps and historical transaction amounts.

We have reviewed the future capital expenditure plan and discussed with the management regarding this plan. As advised by the Company, the future capital expenditure plan was prepared after careful discussion and review by the senior management and respective departments. We have discussed with the management in relation to the Company's business development objectives and the strategies to be employed for the coming three years, and we are of the view that the future capital expenditure plan is in line with the Company's business development objectives, and are prepared after careful consideration. We are of the view that the Proposed Annual Caps for the provision of engineering technology services provide sufficient room for the Group to capture the Group's future anticipated expansion plan, and the Proposed Annual Caps for the provision of engineering technology services are determined on a fair and reasonable basis.

6.3 Production services to be provided by CNPC to the Group

The Proposed Annual Caps for the production services provided by CNPC to the Group have been determined with reference to:

(a) the previous transactions conducted and transaction amounts in respect of production services provided by CNPC to the Group;

(b) the estimated business development of the Group; and

(c) the potential fluctuations in the international and the PRC market prices of crude oil, petroleum and petrochemical products.

Based on the information provided by the Company, the historical transaction amounts of production services provided by CNPC to the Group were approximately RMB151,950 million and RMB148,128 million for the two years ended 31 December 2019 respectively, representing approximately 66.4% and 67.2% of the historical annual caps respectively. As advised by the management of the Company, the main reasons for the discrepancy between the historical annual caps and historical amounts incurred for the two years ended 31 December 2019 are as follows: (i) international trade accounted for a large proportion of this category of connected transactions, and its uncertainty is much greater than other businesses, therefore products and services actually provided by the Group to CNPC were less than anticipated; and (ii) due to the objective to maintain the quality of crude oil and natural gas, CNPC is required to replace its crude oil and natural gas reserve from time to time and supply the replaced crude oil and natural gas to the Company to conduct production and sales activities, and the quantities and timing of replacement are uncertain. Based on the Proposed Annual Caps for production services to be provided by CNPC to the Group for each of the three years ending 31 December 2023, the expected production services to be provided by CNPC to the Group will decrease by approximately 2.4% in 2021 as compared to 2020, then will decrease by approximately 1.1% and 0.5%, respectively in 2022 and 2023 as compared with those in 2021 and 2022 respectively.

As advised by the management of the Company, the Proposed Annual Caps of production services to be provided by CNPC to the Group is based on the estimated business development plan, and the production services to be provided by CNPC to the Group for the years 2021, 2022, and 2023 mainly include water supply, electricity supply, gas supply and the supply of petroleum, natural gas and petrochemical products and others (including sharing services). Therefore, the reasons for the determination of lower Proposed Annual Caps for the production services to be provided by CNPC to the Group in 2021, 2022, and 2023 as compared with 2020 are primarily due to the lower level in crude oil and refined oil products prices compared to those in 2017 when the Company determined the annual caps for the three years ended 31 December 2020.

We have reviewed the future capital expenditure plan and discussed with the management regarding this plan. As advised by the Company, the future capital expenditure plan was prepared after careful discussion and review by the senior management and respective departments. We have discussed with the management in relation to the Company's business development objectives and the strategies to be employed for the coming three years, and we are of the view that the future capital expenditure plan is in line with the Company's business development objectives, and are prepared after careful consideration. Considering (i) the potential fluctuations in the prices of crude oil, refined oil, petrochemical products, and natural gas in the international and the PRC market; (ii) the future business development of the Company and CNPC; and (iii) CNPC is responsible for the national crude oil and natural gas reserves of the PRC and the quality of such crude oil and natural gas reserves is required to be maintained at certain level. In this regard, CNPC is required to replace its crude oil and natural gas reserves from time to time and supply the replaced crude oil and natural gas to the Company to conduct production and sales activities, we are of the opinion that the Proposed Annual Caps for the production services provided by CNPC to the Group are determined on a fair and reasonable basis.

6.4 Financial services to be provided by CNPC to the Group: deposit services

The Proposed Annual Caps for the aggregate of maximum daily deposits made by the Group with CNPC and the interests received in respect of these deposits have been determined with reference to:

(a) the estimated business development of the Group;

(b) the Group's historical cash flow and levels of deposits; and

(c) the competitive interest rates offered by CNPC Finance and other financial institutions.

Based on the information provided by the Company, the historical transaction amounts of financial services (aggregate of deposits and interests) provided by CNPC to the Group were approximately RMB61,345 million and RMB61,692 million for the two years ended 31 December 2019 respectively, representing approximately 97.4% and 97.9% of the historical annual caps respectively. During the past two years ended 31 December 2019, the amount for the aggregate of maximum daily deposits made by the Group with CNPC and the interests received in respect of these deposits remain steady. Based on the Proposed Annual Caps for financial services (aggregate of deposits and interests) to be provided by CNPC to the Group for each of the three years ending 31 December 2023, the expected financial services (aggregate of deposits and interests) to be provided by CNPC to the Group will decrease by 12.7% in the following three years ended in 31 December 2023 as compared to 2020.

As advised by the management of the Company, the Proposed Annual Caps of financial services (aggregate of deposits and interests) to be provided by CNPC to the Group is based on estimated business development of the Group. The reasons for the determination lower Proposed Annual Caps for the financial services (aggregate of deposits and interests) to be provided by CNPC to the Group in 2021, 2022, and 2023 as compared with 2020 are primarily: (i) based on the historical transaction amount, the Group's demand of financial services (aggregate of deposits and interests) are relatively stable; and (ii) the competitive interest rates offered by CNPC Finance and other financial institutions.

Considering (i) the Group's historical cash flow and levels of deposits; and (ii) the estimated business development of the Group, we are of the opinion that the Proposed Annual Caps for the financial services (aggregate of deposits and interests) provided by CNPC to the Group are determined on a fair and reasonable basis.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the entering of the Non-Exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms or terms no less favourable to the Company than those with independent third parties; (ii) the Proposed Annual Caps of the Non-Exempt Continuing Connected Transactions are reasonably determined; (iii) the terms of the Non-Exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned; and (iv) the entering of the Non-Exempt Continuing Connected Transactions are in the interest of the Company and the Independent Shareholders as a whole.

We therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of ordinary resolutions in relation to the Non-Exempt Continuing Connected Transactions as detailed in the notice of the Extraordinary General Meeting as set out at the end of the Circular.

Yours faithfully,
For and on behalf of
ICBC International Capital Limited

Vincent Wong
Managing Director
Corporate Advisory Group

Letty Wu
Executive Director
Corporate Advisory Group

Mr. Vincent Wong and Ms. Letty Wu are licensed persons registered with the Securities and Futures Commission to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Wong is a responsible officer of ICBC International Capital Limited and has over 15 years of experience in finance and investment bank. Ms. Wu is a responsible officer of ICBC International Capital Limited and has over 10 years of experience in finance and investment bank.

1. RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS AND CONFIRMATIONS

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had an interest and short positions in the shares, underlying shares and debentures of the Company or an associated corporation.

As at the Latest Practicable Date:

(a) no Director, supervisor or chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests and short position in accordance with such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange except that the spouse of Mr. Liu Xianhua, a supervisor of the Company, held 2,300 A shares of the Company;

(b) apart from Mr. Dai Houliang, Mr. Li Fanrong, Mr. Liu Yuezhen, Mr. Lv Bo, Mr. Jiao Fangzheng and Mr. Duan Liangwei, who are deemed as connected directors of the Company by virtue of their positions in CNPC who abstained from voting at the board meeting held on 26 and 27 August 2020 in respect of the Continuing Connected Transactions in relation to CNPC, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting as at the date of this circular and significant in relation to the business of the Group;

(c) none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(d) except for Mr. Dai Houliang, Mr. Li Fanrong, Mr. Liu Yuezhen, Mr. Lv Bo, Mr. Jiao Fangzheng and Mr. Duan Liangwei, who are concurrently serving as a director and/or senior management of CNPC, as at the Latest Practicable Date, to the best of the Directors' knowledge, none of our Directors or any of their close associates had any interest in a business which competes or is likely to compete, directly or indirectly, with the Group's business.

(e) the Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2019, the date to which the latest published audited financial statements of the Company were made up; and

(f) none of the Directors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as is known to the Directors and the chief executive of the Company, the following persons have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings:

Name of shareholders	Nature of shareholding	Number of shares	Capacity	Percentage of such shares in the same class of the issued share capital *(%)*	Percentage of total share capital *(%)*
CNPC	A Shares	146,882,339,136 (L)	Beneficial Owner	90.71	80.25
	H Shares	291,518,000 (L)[1]	Interest of Corporation Controlled by the Substantial Shareholder	1.38	0.16
BlackRock, Inc.[2]	H Shares	1,433,719,915 (L)	Interest of Corporation Controlled by	6.8	0.78
		3,470,000 (S)	the Substantial Shareholder	0.02	0.00
Citigroup Inc.[3]	H Shares	1,165,526,558 (L)	Interest of Corporation Controlled by	5.52	0.64
		115,848,909 (S)	the Substantial Shareholder/	0.54	0.06
		1,008,925,130 (LP)	Approved Lending Agent	4.78	0.55

(L) Long position (S) Short position (LP) Lending pool

Notes: (1) 291,518,000 H shares (long position) were held by Fairy King Investments Limited, an overseas wholly-owned subsidiary of CNPC. CNPC is deemed to be interested in the H shares held by Fairy King Investments Limited.

(2) Blackrock, Inc., through various subsidiaries, had an interest in the H shares of the Company, of which 1,433,719,915 H shares (long position) and 3,470,000 H shares (short position) were held in its capacity as interest of corporation controlled by the substantial shareholder.

(3) Citigroup Inc., through various subsidiaries, had an interest in the H shares of the Company, of which 156,601,428 H shares (long position) and 115,848,909 H shares (short position) were held in its capacity as interest of corporation controlled by the substantial shareholder, and 1,008,925,130 H shares (long position) were held in its capacity as approved lending agent.

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who are directly or indirectly interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings.

Except for Mr. Dai Houliang, Mr. Li Fanrong, Mr. Liu Yuezhen, Mr. Lv Bo, Mr. Jiao Fangzheng and Mr. Duan Liangwei, who are concurrently directors and/or members of the management of CNPC, as of the Latest Practicable Date, no director acted as director or employee of any Shareholder of the Company nor director or employee of the company having any interests or short position in the Shares or underlying Shares of the Company or otherwise was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO.

4. EXPERTS' QUALIFICATIONS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advice which are contained in this circular:

Names	Qualification
ICBC International Capital Limited	licensed corporation under the SFO to carry on type 1 (dealing in securities), Type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Savills Valuation and Professional Services Limited	an independent valuer

(a) Each of ICBC International and Savills Valuation and Professional Services Limited is not beneficially interested in the share capital of any member of the Group and none of them has any right, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(b) Each of ICBC International and Savills Valuation and Professional Services Limited has given and has not withdrawn its written consent to the issue of this circular with inclusion of its opinions and letters, as the case may be, and the reference to its name included herein in the form and context in which they respectively appear.

(c) As at the Latest Practicable Date, each of ICBC International and Savills Valuation and Professional Services Limited did not have any direct or indirect interest in any assets which have been, since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. GENERAL

(a) Mr. Wu Enlai is the company secretary of the Company, who is a fellow member of the Hong Kong Institute of Company Secretaries.

(b) The registered office of the Company is located at World Tower, 16 Andelu, Dongcheng District, Beijing, the PRC, and the headquarters of the Company is located at No. 9 Dongzhimen North Street, Dongcheng District, Beijing, the PRC.

(c) The share registrar of the Company in Hong Kong is Hong Kong Registrars Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Suite 3705, Tower 2, Lippo Centre 89 Queensway, Hong Kong during normal business hours on any business day for a period of 14 days from the date of this circular:

(a) the New Comprehensive Agreement, the confirmation letter to the Land Use Rights Leasing Contract and the 2017 Buildings Leasing Contract mentioned in this circular;

(b) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 48 to 49 of this circular;

(c) the letter issued by the ICBC International on 15 September 2020, the text of which is set out on pages 50 to 77 of this circular;

(d) the letter issued by Savills Valuation and Professional Services Limited in respect of rental of land and buildings of CNPC by the Group on 26 August 2020; and

(e) the written consents of ICBC International and Savills Valuation and Professional Services Limited referred to paragraph 4 of this Appendix.

中國石油天然氣股份有限公司

PETROCHINA COMPANY LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 857)

NOTICE OF THE THIRD EXTRAORDINARY GENERAL MEETING IN 2020

NOTICE IS HEREBY GIVEN that the third extraordinary general meeting in 2020 (the "**EGM**") of PetroChina Company Limited (the "**Company**") will be held at 9:00 a.m. on Thursday, 5 November 2020 at Talimu Petroleum Hotel, 5 Beishatan, Chaoyang District, Beijing, the PRC to consider and approve the following matters:

ORDINARY RESOLUTIONS

1. To consider and approve the following resolution in respect of continuing connected transactions:

   "**THAT**, as set out in the circular dated 15 September 2020 issued by the Company to its shareholders (the "**Circular**"): the New Comprehensive Agreement entered into between the Company and China National Petroleum Corporation be and is hereby approved, ratified and confirmed and the execution of the New Comprehensive Agreement by Mr. Chai Shouping for and on behalf of the Company be and is hereby approved, ratified and confirmed; Mr. Chai Shouping be and is hereby authorised to make any amendment to the New Comprehensive Agreement as he thinks desirable and necessary and to do all such further acts and things and execute such further documents and take all such steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such transactions; and the Non-Exempt Continuing Connected Transactions and the proposed annual caps of the Non-Exempt Continuing Connected Transactions under the New Comprehensive Agreement, which the Company expects to occur in the ordinary and usual course of business of the Company and its subsidiaries, as the case may be, and to be conducted on normal commercial terms, be and are hereby generally and unconditionally approved."

By Order of the Board
PetroChina Company Limited
Wu Enlai
Secretary to the Board

15 September 2020

Notes:

1. The register of members of H Shares of the Company will be closed from Thursday, 1 October 2020 to Thursday, 5 November 2020 (both days inclusive), during which time no share transfers of H Shares will be effected. In order to qualify for attending and voting at the EGM of the Company, holders of H shares must lodge all transfer documents together with the relevant share certificates at Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration at or before 4:30 p.m. on Wednesday, 30 September 2020. Holders of the Company's H Shares whose names appear on the register of members of the Company before the close of business day on Thursday, 1 October 2020 are entitled to attend and vote in respect of all resolutions to be proposed at the EGM.

   The address of the share registrar of the Company's H Shares is:

   Hong Kong Registrars Limited
   Shops 1712–1716,
   17/F Hopewell Centre,
   183 Queen's Road East, Hong Kong

2. Unless otherwise indicated, the capitalized terms used in this notice shall have the same meaning as those defined in the circular of the EGM of the Company dated 15 September 2020.

3. Each Shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his/her behalf at the EGM. A proxy need not be a Shareholder.

4. A proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.

5. The instrument appointing a proxy must be in writing under the hand of the appointer or his attorney duly authorised in writing, or if the appointer is a legal person, either under seal or under the hand of a director or a duly authorised attorney. If that instrument is signed by an attorney of the appointer, the power of attorney authorising that attorney to sign or other document of authorisation must be notarised. To be valid, for holders of A Shares, the notarised power of attorney or other document of authorisation, and the form of proxy must be delivered to the Secretariat of the Board of Directors of the Company (Address: Room 0610, Block C, 9 Dongzhimen North Street, Dongcheng District, Beijing, PRC (Postal code: 100007)) not less than 24 hours before the time appointed for the holding of the EGM (*i.e.*, by not later than 9:00 a.m. on 4 November 2020 Wednesday). In order to be valid, for holders of H shares, the above documents must be delivered to Hong Kong Registrars Limited (Address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong) within the same period.

6. Shareholders who intend to attend the EGM in person or by proxy should return the reply slip accompanying each notice of EGM to the Secretariat of the Board of Directors on or before Friday, 16 October 2020 by hand, by post or by fax.

7. This EGM is expected to last for half a day. Shareholders (in person or by proxy) attending the EGM are responsible for their own transportation and accommodation expenses.

8. The address of the Secretariat of the Board of Directors is as follows:

   Room 0610, Block C
   China Petroleum Building
   9 Dongzhimen North Street
   Dongcheng District
   Beijing, PRC
   Postal code: 100007
   Contact person: Wu Enlai
   Tel: (8610) 5998 6687
   Fax: (8610) 6209 9557

9. As at the date of this notice, the Board comprises Mr. Dai Houliang as Chairman; Mr. Li Fanrong as Vice Chairman and non-executive Director; Mr. Liu Yuezhen, Mr. Lv Bo and Mr. Jiao Fangzheng as non-executive Directors; Mr. Duan Liangwei as executive Director; and Ms. Elsie Leung Oi-sie, Mr. Tokuchi Tatsuhito, Mr. Simon Henry, Mr. Cai Jinyong and Mr. Jiang, Simon X. as independent non-executive Directors.