

## Cash Provided by Operating Activities

Our net cash provided by operating activities increased 92.7% from RMB 54,053 million for the year ended December 31, 1999 to RMB 104,169 million for the year ended December 31, 2000. This increase was primarily due to an increase in income before income taxes. An increase of RMB 10,227 million in depreciation, depletion and amortisation also contributed to the increase of net cash provided by operating activities. The increase in net cash was partially offset by increases in tax paid.

We had a working capital deficit of RMB 29,280 million as of December 31, 1999 and RMB 12,967 million as of December 31, 2000. The primary cause of these deficits was the fact that we have typically taken advantage of significantly lower interest rates on short-term debt and financed long-term projects with short-term debt. Interest rates on short-term debt in China have generally been approximately 1% to 2% lower than those on long-term debt. In 2000, we used RMB 37,731 million of the net proceeds we received from the global offering and our internally generated cash flow to repay our short-term debt. In order to ensure that the profile of our liabilities better matches the long-term nature of our assets, we intend to continue to extend the maturity profile of our debt by replacing short-term debt at maturity with long-term debt in the form of domestic bank loans or domestic bonds. As of December 31, 2000, we had undrawn credit facilities in an aggregate amount of approximately RMB 41,400 million from the Bank of China, Industrial and Commercial Bank of China, China Construction Bank and China Petroleum Finance Company Limited, a subsidiary of CNPC and a non-bank financial institution approved by the People's Bank of China. On February 22, 2000, the China Development Bank signed a letter of commitment to provide us with a standby non-revolving credit facility of RMB 10,000 million to fund our oil and gas exploration and production activities in 2000. As of December 31, 2000, the China Development Bank had provided RMB 9,800 million of such credit facility for our oil and gas exploration and production activities. In addition, on August 24, 2000, the Bank of China signed a credit facility agreement to provide us with a standby credit facility of RMB 20,000 million. We can draw down a majority portion of the funds available under this credit facility in the form of medium- or long-term loans. We intend to use the funds available under this credit facility to repay a significant portion of our short-term debts. We expect to use the balance of the available funds to rollover or refinance our remaining short-term debts. In addition, we have initiated discussions with relevant PRC government agencies regarding accessing the international debt capital markets.

In August 1999, we began the implementation of a centralised cash management system on a trial basis at our headquarters. In January 2000, most of our subsidiaries and branches began implementing this system. This system has the following principal components:

- requiring our subsidiaries and branches to remit their sales revenues to bank accounts

designated by our headquarters;

- utilising excess bank deposits to reduce bank borrowings; and
- centralising and simplifying internal clearing and settlement procedures.

The implementation of this centralized cash management system has resulted in the inter-segment accounts receivable collection cycle being shortened by three to four days on average.

Our notes and other receivables include notes receivable from customers. Other receivables represent advances to employees, non-trade related receivables from other companies, and receivables from government agencies. Allowance for doubtful accounts were primarily related to other receivables which we estimated to be uncollectible. Our notes receivable do not include past due customer amounts and, as a majority portion of our notes receivable are approved by banks, we do not have special arrangements with respect to extended payment terms on notes receivable.

### Cash Provided by (Used for) Financing Activities

Our net borrowings for the years ended December 31, 1998 and 1999 and 2000 were as follows:

	<u>1998</u>	<u>December 31,</u> <u>1999</u>	<u>2000</u>
	<u>(RMB millions)</u>		
Short-term debt (including current portion of long-term debt)	63,474	59,959	39,076
Long-term debt	105,354	84,458	53,341
Total debt	168,828	144,417	92,417
Less:			
Cash and cash equivalents	15,109	17,848	18,060
Short-term investments	53	1,487	5,815
Long-term investments	3,579	3,799	4,784
Net debt	150,087	121,283	63,758

See Note 23 to our Consolidated Financial Statements for information regarding the maturity profile of debt, currency and interest rate structure.

The debts which were guaranteed by CNPC amounted to RMB 60,006 million, RMB 61,409 million and RMB 17,712 million for the three years ended December 31, 1998, 1999 and 2000, respectively. As of December 31, 2000, we had repaid all short-term debts guaranteed by CNPC. CNPC and ourselves have undertaken to the Hong Kong Stock Exchange that we will continue to, on a best endeavors basis, approach each lender in respect of these guaranteed debts with a view to obtaining the unconditional release of such guarantees.

The amount of short-term debts owed to related parties as of December 31, 1998, 1999 and 2000 were RMB 7,437 million, RMB 15,544 million and RMB 14,269 million, respectively. The amount of long-term debts owed to related parties as of December 31, 1998, 1999 and