# PETROCHINA COMPANY LIMITED
# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2006
(Amounts in millions except for per share data)

| | Notes | 2006 RMB | 2005 RMB |
|---|---|---|---|
| **TURNOVER** | 5 | 688,978 | 552,229 |
| **OPERATING EXPENSES** | | | |
| Purchases, services and other | | (271,123) | (200,321) |
| Employee compensation costs | 7 | (39,161) | (29,675) |
| Exploration expenses, including exploratory dry holes | | (18,822) | (15,566) |
| Depreciation, depletion and amortisation | | (61,388) | (51,305) |
| Selling, general and administrative expenses | | (43,235) | (36,538) |
| Taxes other than income taxes | 8 | (56,666) | (23,616) |
| Other expense, net | | (607) | (3,037) |
| **TOTAL OPERATING EXPENSES** | | (491,002) | (360,058) |
| **PROFIT FROM OPERATIONS** | | 197,976 | 192,171 |
| **FINANCE COSTS** | | | |
| Exchange gain | | 1,830 | 942 |
| Exchange loss | | (1,756) | (854) |
| Interest income | | 2,066 | 1,924 |
| Interest expense | 9 | (3,220) | (2,762) |
| **TOTAL NET FINANCE COSTS** | | (1,080) | (750) |
| **SHARE OF PROFIT OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES** | 16 | 2,277 | 2,401 |
| **PROFIT BEFORE TAXATION** | 6 | 199,173 | 193,822 |
| **TAXATION** | 11 | (49,776) | (54,180) |
| **PROFIT FOR THE YEAR** | | 149,397 | 139,642 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the Company | | 142,224 | 133,362 |
| Minority interest | | 7,173 | 6,280 |
| | | 149,397 | 139,642 |
| **BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE YEAR** | 13 | 0.79 | 0.75 |
| **DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:** | | | |
| Interim dividends | 14 | 36,307 | 27,731 |
| Final dividends | 14 | 27,694 | 32,282 |
| | | 64,001 | 60,013 |

The accompanying notes are an integral part of these financial statements.

# PETROCHINA COMPANY LIMITED
# CONSOLIDATED BALANCE SHEET

As of December 31, 2006

(Amounts in millions)

| | Notes | 2006 RMB | 2005 RMB |
|---|---|---|---|
| **NON CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | 645,337 | 563,890 |
| Investments in associates and jointly controlled entities | 16 | 32,956 | 12,378 |
| Available-for-sale investments | 17 | 2,054 | 1,230 |
| Advance operating lease payments | 19 | 20,468 | 16,235 |
| Intangible and other assets | 20 | 6,627 | 5,011 |
| Time deposits with maturities over one year | | 2,499 | 3,428 |
| | | 709,941 | 602,172 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | 76,038 | 62,733 |
| Accounts receivable | 22 | 8,488 | 4,630 |
| Prepaid expenses and other current assets | 23 | 23,281 | 22,673 |
| Notes receivable | 24 | 2,844 | 3,028 |
| Investments in collateralised loans | 25 | - | 235 |
| Time deposits with maturities over three months but within one year | | 3,012 | 1,691 |
| Cash and cash equivalents | 26 | 48,559 | 80,905 |
| **TOTAL CURRENT ASSETS** | | 162,222 | 175,895 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued liabilities | 27 | 120,182 | 99,758 |
| Income tax payable | | 17,744 | 20,567 |
| Other taxes payable | | 6,190 | 4,824 |
| Short-term borrowings | 28 | 35,763 | 28,689 |
| | | 179,879 | 153,838 |
| **NET CURRENT (LIABILITIES) /ASSETS** | | (17,657) | 22,057 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 692,284 | 624,229 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 29 | 179,021 | 179,021 |
| Retained earnings | | 264,092 | 203,812 |
| Reserves | 30 | 143,564 | 132,556 |
| | | 586,677 | 515,389 |
| Minority interest | | 30,914 | 28,278 |
| **TOTAL EQUITY** | | 617,591 | 543,667 |
| **NON CURRENT LIABILITIES** | | | |
| Long-term borrowings | 28 | 35,634 | 44,570 |
| Other long-term obligations | | 995 | 1,046 |
| Asset retirement obligations | 32 | 18,481 | 14,187 |
| Deferred taxation | 31 | 19,583 | 20,759 |
| | | 74,693 | 80,562 |
| | | 692,284 | 624,229 |

The accompanying notes are an integral part of these financial statements.

| Chairman | President |
|---|---|
| Chen Geng | Jiang Jiemin |

# PETROCHINA COMPANY LIMITED
## BALANCE SHEET
As of December 31, 2006
(Amounts in millions)

| | Notes | 2006 RMB | 2005 RMB |
|---|---|---|---|
| **NON CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | 466,707 | 399,876 |
| Investments in associates and jointly controlled entities | 16 | 3,458 | 4,246 |
| Available-for-sale investments | 17 | 1,011 | 973 |
| Subsidiaries | 18 | 111,091 | 105,321 |
| Advance operating lease payments | 19 | 15,776 | 11,933 |
| Intangible and other assets | 20 | 5,620 | 3,983 |
| | | 603,663 | 526,332 |
| **CURRENT ASSETS** | | | |
| Inventories | 21 | 60,270 | 51,538 |
| Accounts receivable | 22 | 1,574 | 1,471 |
| Prepaid expenses and other current assets | 23 | 22,052 | 29,259 |
| Notes receivable | 24 | 2,097 | 2,381 |
| Investments in collateralised loans | 25 | - | 117 |
| Time deposits with maturities over three months but within one year | | 3,000 | - |
| Cash and cash equivalents | 26 | 45,029 | 55,814 |
| **TOTAL CURRENT ASSETS** | | 134,022 | 140,580 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable and accrued liabilities | 27 | 120,000 | 113,233 |
| Income tax payable | | 15,568 | 18,898 |
| Other taxes payable | | 3,296 | 1,726 |
| Short-term borrowings | 28 | 27,676 | 22,336 |
| | | 166,540 | 156,193 |
| **NET CURRENT LIABILITIES** | | (32,518) | (15,613) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 571,145 | 510,719 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 29 | 179,021 | 179,021 |
| Retained earnings | | 205,379 | 151,682 |
| Reserves | 30 | 140,407 | 129,208 |
| **TOTAL EQUITY** | | 524,807 | 459,911 |
| **NON CURRENT LIABILITIES** | | | |
| Long-term borrowings | 28 | 27,665 | 32,777 |
| Other long-term obligations | | 924 | 838 |
| Asset retirement obligations | 32 | 11,269 | 8,068 |
| Deferred taxation | 31 | 6,480 | 9,125 |
| | | 46,338 | 50,808 |
| | | 571,145 | 510,719 |

The accompanying notes are an integral part of these financial statements.

| | |
|---|---|
| Chairman | President |
| Chen Geng | Jiang Jiemin |

# PETROCHINA COMPANY LIMITED
# CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended December 31, 2006

(Amounts in millions)

| | Notes | 2006 RMB | 2005 RMB |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | 33 | 198,102 | 203,885 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Capital expenditures | | (130,409) | (119,227) |
| Acquisition of associates and jointly controlled entities | | (22,549) | (2,334) |
| Acquisition of available-for-sale investments | | (62) | (782) |
| Net proceeds from investments in collateralised loans with maturities not greater than three months | | 235 | 26,896 |
| Acquisitions of investments in collateralised loans with maturities over three months | | - | (443) |
| Acquisition of intangible assets | | (1,358) | (1,600) |
| Acquisition of other non-current assets | | (1,706) | (1,133) |
| Return of capital to minority interest due to liquidation of subsidiaries | | - | (935) |
| Purchase from minority interest of listed subsidiaries | 18 | (4,095) | (2,019) |
| Other purchase from minority interest | | (640) | (376) |
| Proceeds from investments in collateralised loans with maturities over three months | | - | 6,529 |
| Repayment of capital by associates | | 99 | 115 |
| Proceeds from disposal of property, plant and equipment | | 346 | 898 |
| Proceeds from disposal of associates and jointly controlled entities | | 69 | 1,102 |
| Proceeds from disposal of available-for-sale investments | | 4 | 976 |
| Proceeds from disposal of intangible and other non-current assets | | 2 | 22 |
| Dividends received | | 2,099 | 678 |
| (Increase)/Decrease in time deposits with maturities over three months | | (486) | 57 |
| **NET CASH USED FOR INVESTING ACTIVITIES** | | (158,451) | (91,576) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayments of short-term borrowings | | (28,349) | (34,529) |
| Repayments of long-term borrowings | | (17,587) | (19,175) |
| Principal payment on finance lease obligations | | - | (21) |
| Dividends paid to minority interest | | (3,033) | (1,486) |
| Dividends paid to equity holders of the Company | 14 | (68,589) | (53,667) |
| Issuance of H shares | 29 | - | 19,692 |
| Increase in short-term borrowings | | 30,183 | 32,019 |
| Increase in long-term borrowings | | 14,195 | 15,514 |
| Capital contribution from minority interest | | 1,492 | 454 |
| Change in other long-term obligations | | (51) | (1,435) |
| **NET CASH USED FOR FINANCING ACTIVITIES** | | (71,739) | (42,634) |
| **TRANSLATION OF FOREIGN CURRENCY** | | (258) | (458) |
| (Decrease)/Increase in cash and cash equivalents | | (32,346) | 69,217 |
| Cash and cash equivalents at beginning of year | 26 | 80,905 | 11,688 |
| Cash and cash equivalents at end of year | 26 | 48,559 | 80,905 |

The accompanying notes are an integral part of these financial statements.

# PETROCHINA COMPANY LIMITED
# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2006

(Amounts in millions)

| | Attributable to equity holders of the Company | | | | Minority Interest | Total Equity |
|---|---|---|---|---|---|---|
| | Share Capital | Retained Earnings | Reserves | Subtotal | | |
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Balance at January 1, 2005 | 175,824 | 143,115 | 108,834 | 427,773 | 15,199 | 442,972 |
| Currency translation differences | - | - | (268) | (268) | (465) | (733) |
| Net loss recognised directly in equity | - | - | (268) | (268) | (465) | (733) |
| Profit for the year ended December 31, 2005 | - | 133,362 | - | 133,362 | 6,280 | 139,642 |
| Total recognised income/(loss) for 2005 | - | 133,362 | (268) | 133,094 | 5,815 | 138,909 |
| Issue of H shares (Note 29 and 30) | 3,197 | - | 16,495 | 19,692 | - | 19,692 |
| Transfer to reserves (Note 30) | - | (18,998) | 18,998 | - | - | - |
| Final dividends for 2004 (Note 14) | - | (25,936) | - | (25,936) | - | (25,936) |
| Interim dividends for 2005 (Note 14) | - | (27,731) | - | (27,731) | - | (27,731) |
| Payment to CNPC for the acquisition of the refinery and petrochemical businesses (Note 2) | - | - | (9) | (9) | - | (9) |
| Dividends to minority interest | - | - | - | - | (1,568) | (1,568) |
| Return of capital to minority interest due to liquidations of subsidiaries | - | - | - | - | (935) | (935) |
| Purchase from minority interest of listed subsidiaries (Note 18) | - | - | (1,438) | (1,438) | (581) | (2,019) |
| Other movement in minority interest | - | - | - | - | 242 | 242 |
| Capital contribution to CNPC Exploration and Development Company Limited (Note 2) | - | - | (10,056) | (10,056) | 10,106 | 50 |
| Balance at December 31, 2005 | 179,021 | 203,812 | 132,556 | 515,389 | 28,278 | 543,667 |
| Currency translation differences | - | - | (191) | (191) | (204) | (395) |
| Net loss recognised directly in equity | - | - | (191) | (191) | (204) | (395) |
| Profit for the year ended December 31, 2006 | - | 142,224 | - | 142,224 | 7,173 | 149,397 |
| Total recognised income/(loss) for 2006 | - | 142,224 | (191) | 142,033 | 6,969 | 149,002 |
| Transfer to reserves (Note 30) | - | (13,355) | 13,355 | - | - | - |
| Final dividends for 2005 (Note 14) | - | (32,282) | - | (32,282) | - | (32,282) |
| Interim dividends for 2006 (Note 14) | - | (36,307) | - | (36,307) | - | (36,307) |
| Dividends to minority interest | - | - | - | - | (3,000) | (3,000) |
| Purchase from minority interest of subsidiaries (Note 18) | - | - | (2,156) | (2,156) | (2,579) | (4,735) |
| Other movement in minority interest | - | - | - | - | (246) | (246) |
| Minority interest paid-in capital | - | - | - | - | 1,492 | 1,492 |
| Balance at December 31, 2006 | 179,021 | 264,092 | 143,564 | 586,677 | 30,914 | 617,591 |

The accompanying notes are an integral part of these financial statements.

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

PetroChina Company Limited (the "Company") was established in the People's Republic of China (the "PRC" or "China") on November 5, 1999 as a joint stock company with limited liability as a result of a group restructuring (the "Restructuring") of China National Petroleum Corporation ("CNPC") in preparation for the listing of the Company's shares in Hong Kong and in the United States of America in 2000 (Note 29). The Company and its subsidiaries are collectively referred to as the "Group".

The Group is principally engaged in (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, (iii) the production and sale of chemicals, and (iv) the transmission, marketing and sale of natural gas (Note 40).

## 2 BASIS OF PREPARATION

The consolidated financial statements (comprising the consolidated profit and loss account, consolidated balance sheets, consolidated cash flow statements and the consolidated statements of changes in equity of the Group ) and the balance sheet of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements and the balance sheet of the Company have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

In 2006, the Group adopted the following amendments and interpretations to existing standards which are relevant to its operations. The adoption of these amendments and interpretations did not result currently in changes to the Group's accounting policies. In summary:

**(a) Amendments and interpretations to existing standards effective in 2006**

• International Accounting Standard ("IAS") No 39 ("IAS 39") and IFRS 4 (Amendment), Financial Guarantee Contracts; and

• International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 4, Determining whether an Arrangement contains a Lease.

**(b) Interpretations to existing standards early adopted by the Group**

• IFRIC Interpretation 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006);

The following amendments and interpretations are mandatory for accounting periods beginning on or after January 1, 2006 but are not relevant to the Group's operations:

• IAS 19 (Amendment), Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures;

• IAS 21 (Amendment), Net Investment in a Foreign Operation;

• IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

• IAS 39 (Amendment), The Fair Value Option;

• IFRIC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

• IFRIC Interpretation 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

In accordance with the acquisition agreement between the Company and CNPC dated March 28, 2005, the Company acquired the refining and petrochemical businesses owned by CNPC's wholly-owned subsidiaries, Ningxia Dayuan Refinery and Petrochemical Company Limited ("Dayuan") and Qingyang Refinery and Petrochemical Company Limited ("Qingyang") with a total consideration of RMB 9.

The acquisition is a combination of businesses under common control since the Company and the CNPC's refinery and petrochemical businesses owned by Dayuan and Qingyang are under the common control of CNPC. As a result, the Company accounted for the acquisition in a manner similar to a uniting of interests, whereby the assets and liabilities acquired are accounted for at historical cost to CNPC (net liabilities of RMB 183 at the effective date). The consolidated financial statements have been restated to give effect to the acquisition with all periods presented as if the operations of the Group and these refinery and petrochemical businesses have always been combined. The difference between RMB 9 payable and the net liabilities transferred from CNPC has been adjusted against equity.

In August 2005 the shareholders of the Company approved the acquisition and transfer agreements relating to the Company's acquisition of a 50% ownership interest in CNPC Exploration and Development Company Limited ("CNPC E&D"). CNPC E&D was formed in 2005 and was wholly owned by China National Oil and Gas Exploration and Development Corporation ("CNODC", wholly owned by CNPC) and one of its subsidiaries. Under the terms of the related agreements, CNODC transferred certain oil and gas exploration operations into CNPC E&D and the Company contributed to CNPC E&D its wholly-owned subsidiary, PetroChina International Limited ("PTRI"), and cash amounting to approximately RMB 20,162, which is the difference between the cash contribution of RMB 20,741 payable by the Company according to the acquisition agreement and cash consideration of RMB 579 for PTRI receivable by the Company.

The terms of the agreements grant the Company the right to appoint four of the seven directors of CNPC E&D and enable the Company to maintain effective control over CNPC E&D.

Similar to the acquisition of the refinery and petrochemical businesses from CNPC described above, the investment in CNPC E&D and related transactions have been accounted for in a manner similar to uniting of interests as all entities involved are under common control by CNPC. The consolidated financial statements of the Company have been restated as if the operations of the Company and CNPC E&D have always been combined. The payment was made directly to CNPC E&D, therefore the difference between RMB 20,162 paid and the net assets of RMB 35,551 at the effective date acquired (including RMB 20,162 contributed by the Company and RMB 50 for the contributed paid-in capital by CNODC and its subsidiary) has been adjusted against equity.

## 3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Other than the business combination under common control for which the accounting policy is disclosed in Note 2, the purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

For purposes of the presentation of the Company's balance sheets, investments in subsidiaries are accounted for at cost.

A listing of the Group's principal subsidiaries is set out in Note 18.

### (b) Investments in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method in the consolidated financial statements of the Group and are initially recognised at cost. Under this method the Group's share of the post-acquisition profits or losses of associates is recognised in the consolidated profit and loss account and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated loss and is tested for impairment as part of the overall balance. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition.

For purpose of the presentation of the Company's balance sheet, investments in associates are accounted for at cost.

A listing of the Group's principal associates is shown in Note 16.

**(c) Investments in jointly controlled entities**

Jointly controlled entities are those over which the Group has contractual arrangements to jointly share control with one or more parties. The Group's interest in joint ventures is accounted for by the equity method of accounting (Note 3(b)) in the consolidated financial statements.

A listing of the Group's principal jointly controlled entities is shown in Note 16.

**(d) Transactions with minority interest**

The Group applies a policy of treating transactions with minority interest as transactions with equity participants of the Group. Gains and losses resulting from the disposals to minority interest are recorded in equity. The differences between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired, resulting from the purchase from minority interest, are recorded in equity.

**(e) Foreign currencies**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Most assets and operations of the Group are located in the PRC, and the functional currency of the Company and most of the consolidated subsidiaries is the RMB. For the majority of the overseas oil and gas exploration and production operations, the functional currency is United States Dollars. The consolidated financial statements and the balance sheet of the Company are presented in RMB which is the presentation currency of the Company and most of the consolidated subsidiaries.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the date of the transactions; monetary assets and liabilities denominated in foreign currencies are translated at balance sheet date exchange rates; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated profit and loss account. Profit and loss account and cash flows of the Group's entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency at average exchange rates for the year and their balance sheets are translated at the exchange rates at balance sheet date. Currency translation differences are recognised in shareholders' equity.

The Group did not enter into material hedge contracts during any of the years presented. No foreign currency exchange gains or losses were capitalised in any of the years presented.

**(f) Financial instruments**

Financial instruments carried at the balance sheet date include cash and cash equivalents, investments (including available-for-sale investments and time deposits), receivables, payables, lease obligations and borrowings. Where necessary the particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into with subsequent changes in the fair value recognised in the consolidated profit and loss account. The Group did not hold any derivative financial instruments for hedging or risk management purposes in any of the years presented.

**(g) Investments**

The Group classifies its investments into the following categories: at fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as investments at fair value through profit or loss and included in current assets. The Group did not hold any investments in this category in any of the years presented.

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in current assets if their respective maturity dates are twelve months or less from balance sheet date, or in non-current assets if their respective maturity dates are more than twelve months from balance sheet date; the Group did not hold any investments in this category in any of the years presented.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables are initially recorded at fair value and subsequently at amortised cost.

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any other categories; these are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Regular purchases and sales of available-for-sale investments are recognised on settlement date, the date that the asset is delivered to or by the Group (the effective acquisition or sale date). Available-for-sale investments are initially recognised at fair value plus transaction costs. Available-for-sale investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership in the investment. Available-for-sale investments are measured at fair value except where there are no quoted market prices in active markets and the fair values cannot be reliably measured using valuation techniques. Available-for-sale investments carried at cost are subject to review for impairment.

**(h) Property, plant and equipment**

Property, plant and equipment, including oil and gas properties (Note 3 (i)), are initially recorded at cost less accumulated depreciation, depletion and amortisation. Cost represents the purchase price of the asset and other costs incurred to bring the asset into existing use. Subsequent to their initial recognition, property, plant and equipment are carried at a revalued amount. Revaluations are performed by independent qualified valuers periodically.

In the intervening years between independent revaluations, the directors review the carrying values of the property, plant and equipment and adjustment is made where the carrying value differs from fair value.

Increases in the carrying amount arising on revaluation are credited to the revaluation reserve. Decreases in valuation of property, plant and equipment are first offset against increases from earlier revaluations in respect of the same asset and are thereafter charged to the consolidated profit and loss account. All other decreases in valuation are charged to the consolidated profit and loss account. Any subsequent increases are credited to the consolidated profit and loss account up to the amount previously charged.

Revaluation surpluses realised through the depreciation or disposal of revalued assets are retained in the revaluation reserve and will not be available for offsetting against possible future revaluation losses.

Depreciation, to write off the cost or valuation of each asset, other than oil and gas properties (Note 3(i)), to their residual values over their estimated useful lives is calculated using the straight-line method.

The Group uses the following useful lives for depreciation purposes:

| | |
|---|---|
| Buildings | 20 - 40 years |
| Plant and equipment | 10 - 25 years |
| Motor vehicles | 7- 15 years |

No depreciation is provided for construction in progress until they are completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment, including oil and gas properties (Note 3(i)), are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of a cash generating unit exceeds the higher of its fair value less costs to sell and its value in use, which is the estimated net present value of future cash flows to be derived from the continuing use of the assets.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are recorded in the consolidated profit and loss account.

Interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the property for its intended use. Costs for planned major maintenance activities, primarily related to refinery turnarounds, are expensed as incurred except for costs of components that result in improvements and betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

**(i) Oil and gas properties**

The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalised. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalised as construction in progress pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review (Note 3(h)). For wells that are found to have economically viable reserves in areas where major capital expenditure would be required before production can begin, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the well costs are expensed as dry holes. The Group does not have any costs of unproved properties capitalised in oil and gas properties.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. However, in accordance with a special approval from the State Council, the Ministry of Land and Resources has issued production licenses effective from March 2000 to the Group for all of its crude oil and natural gas reservoirs with terms coextensive with the projected production life of those reservoirs, ranging up to 55 years. Production licenses to be issued to the Group in the future will be subject to the 30-year maximum unless additional special approvals can be obtained from the State Council. Each of the Group’s production licenses is renewable upon application by the Group 30 days prior to expiration. Future oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses. Payments on such licenses are made annually and are expensed as incurred.

The cost of oil and gas properties is amortised at the field level on the unit of production method. Unit of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on the current terms of the Group’s production licenses. The Group’s oil and gas reserves estimates include only crude oil and natural gas which management believes can be reasonably produced within the current terms of these production licenses.

**(j) Intangible assets**

Expenditure on acquired patents, trademarks, technical know-how and licenses is capitalised at historical cost and amortised using the straight-line method over their useful lives, generally over 10 years. Intangible assets are not revalued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and is recognised in the consolidated profit and loss account. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the present value of estimated future cash flows to be derived from continuing use of the asset.

**(k) Leases**

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Property, plant and equipment acquired under finance leases are generally depreciated over the useful life of the asset as the Group usually obtains ownership of such leased assets by the end of the lease term.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed on a straight-line basis over the lease term. Payments made to the PRC's land authorities to secure land use rights are treated as operating leases. Land use rights are generally obtained through advance lump-sum payments and the terms for use range up to 50 years.

**(l) Related parties**

Related parties include CNPC and its subsidiaries, other state-controlled enterprises and their subsidiaries directly or indirectly controlled by the PRC government, corporations in which the Company is able to control or exercise significant influence, key management personnel of the Company and CNPC and their close family members.

Transactions with related parties do not include those done in the ordinary course of business with terms consistently applied to all public and private entities and where there is no choice of supplier such as electricity, telecommunications, postal service and local government retirement funds.

**(m) Inventories**

Inventories are oil products, chemical products and materials and supplies which are stated at the lower of cost and net realisable value. Cost is determined by the weighted average cost method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads, but excludes borrowing cost. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

**(n) Accounts receivable**

Accounts receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

**(o) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits held with banks and highly liquid investments with original maturities of three months or less from the time of purchase.

**(p) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the consolidated profit and loss account over the period of the borrowings, except for the portion eligible for capitalisation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(q) Taxation**

The Company has obtained approval from the State Administration for Taxation to report taxable income on a consolidated basis.

Deferred tax is provided in full, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Currently enacted tax rates are used to determine deferred tax.

The principal temporary differences arise from depreciation on oil and gas properties and equipment and provision for impairment of receivables, inventories, investments and property, plant and equipment. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

The Group also incurs various other taxes and levies that are not income taxes. “Taxes other than income taxes”, which form part of the operating expenses, primarily comprise a special levy on domestic sales of crude oil (Note 8), consumption tax, resource tax, urban construction tax, education surcharges and business tax.

**(r) Revenue recognition**

Sales are recognised upon delivery of products and customer acceptance or performance of services, net of sales taxes and discounts. Revenues are recognised only when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods in the ordinary course of the Group’s activities, and when the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and collectibility of the related receivables is reasonably assured.

The Group markets a portion of its natural gas production under take-or-pay contracts. Customers under the take-or-pay contracts are required to take or pay for the minimum natural gas deliveries specified in the contract clauses. Revenue recognition for natural gas sales and transmission tariff under the take-or-pay contracts follows the accounting policies described in this note. Payments received from customers for natural gas not yet taken are recorded as deferred revenues until actual deliveries take place.

**(s) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provision for future decommissioning and restoration is recognised in full on the installation of oil and gas properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the costs of the oil and gas properties. Any change in the present value of the estimated expenditure other than the one due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

**(t) Research and development**

Research expenditure incurred is recognised as an expense. Costs incurred on development projects are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits.

**(u) Retirement benefit plans**

The Group contributes to various employee retirement benefit plans organised by Chinese municipal and provincial governments under which it is required to make monthly contributions to these plans at rates prescribed by the related municipal and provincial governments. The Chinese municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired Chinese employees of the Group. Contributions to these plans are charged to expense as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post-retirement benefits of employees in China or overseas other than the monthly contributions described above.

**(v) Share-based compensation – Share appreciation rights**

Compensation under the share appreciation rights is measured based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet date to its fair value until settlement with all changes included in employee compensation cost in the consolidated profit and loss account; the related liability is included in the salaries and welfare payable. The Group does not have any other share-based compensation.

**(w) New accounting developments**

(1) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standard and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after May 1, 2006 or later periods but that the Group has not early adopted:

• IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures

IFRS 7 introduces new disclosures relating to financial instruments. The Group does not expect the standard to have any impact on the classification and valuation of the Group's financial instruments.

• IFRIC Interpretation 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006)

IFRIC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC Interpretation 10 from January 1, 2007, but it is not expected to have any impact on the consolidated financial statements.

(2) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after May 1, 2006 or later periods but are not relevant for the Group's operations:

• IFRIC Interpretation 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006)

• IFRIC Interpretation 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006)

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The matters described below are considered to be the most critical in understanding the judgements that are involved in preparing the Group's consolidated financial statements.

### (a) Estimation of oil and natural gas reserves

Oil and natural gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation charges to the consolidated profit and loss account. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and natural gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes to the Group's estimates of proved reserves, particularly proved developed reserves, affect the amount of depreciation, depletion and amortisation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges (assuming constant production) and reduce net profit.

### (b) Estimated impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as future prices of crude oil, refined products and chemical products and production profile. However, the impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan. These assumptions also include those relative to the pricing regulations by the regulatory agencies in China that the policies will not restrict the profit margins of refined products to levels that will be insufficient to recover the carrying cost of the related production assets. Favourable changes to some assumptions may avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

### (c) Estimation of asset retirement obligations

Provisions are recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provisions recognised are the present values of the estimated future expenditures. The estimation of the future expenditures is based on current local conditions and requirements, including legal requirements, technology, price level, etc.. In addition to these factors, the present values of these estimated future expenditures are also impacted by the estimation of the economic life of oil and gas properties. Changes in any of these estimates will impact the operating results and the financial position of the Group over the remaining economic life of oil and gas properties.

(Amounts in millions except for per share data or unless otherwise stated)

## 5 TURNOVER

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transportation of crude oil and natural gas. Analysis of turnover by segment is shown in Note 40.

## 6 PROFIT BEFORE TAXATION

| | 2006 | 2005 |
|---|---|---|
| | RMB | RMB |
| Profit before taxation is arrived at after crediting and charging of the following items: | | |
| Crediting | | |
| Dividend income from available-for-sale investments | 208 | 109 |
| Reversal of provision for impairment of receivables | 460 | 538 |
| Reversal of impairment of available-for-sale investments | 4 | 54 |
| Reversal of write down in inventories | 180 | 293 |
| Charging | | |
| Amortisation on intangible and other assets | 1,250 | 888 |
| Auditors' remuneration | 140 | 50 |
| Cost of inventories (approximates cost of goods sold) recognised as expense | 341,456 | 257,957 |
| Depreciation on property, plant and equipment, including impairment provision | | |
| - owned assets | 58,669 | 49,198 |
| - assets under finance leases | 6 | 13 |
| Impairment of available-for-sale investments | 36 | 31 |
| Provision for impairment of receivables | 144 | 83 |
| Interest expense (Note 9) | 3,220 | 2,762 |
| Loss on disposal of property, plant and equipment | 1,753 | 2,026 |
| Operating lease expenses | 5,378 | 4,850 |
| Repair and maintenance | 9,233 | 7,880 |
| Research and development expenses | 4,260 | 3,195 |
| Transportation expenses | 17,872 | 13,707 |
| Write down in inventories | 320 | 154 |

(Amounts in millions except for per share data or unless otherwise stated)

## 7 EMPLOYEE COMPENSATION COSTS

| | 2006 | 2005 |
|---|---|---|
| | RMB | RMB |
| Wages and salaries | 26,629 | 19,351 |
| Social security costs (i) | 12,532 | 10,324 |
| | 39,161 | 29,675 |

(i) Social security costs mainly represent contributions to funds for staff welfare organised by the PRC municipal and provincial governments including contribution to the retirement benefit plans (Note 34).

## 8 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include RMB 28,914 for the year ended December 31, 2006 (2005: RMB Nil) of special levy which is paid or payable on the portion of income realised by petroleum exploration enterprises from the sales of domestic crude oil at prices higher than a specific level. This levy was imposed by the PRC government and became effective from March 26, 2006.

## 9 INTEREST EXPENSE

| | 2006 | 2005 |
|---|---|---|
| | RMB | RMB |
| Interest on | | |
| Bank loans | | |
| - wholly repayable within five years | 1,952 | 2,306 |
| - not wholly repayable within five years | 73 | 46 |
| Other loans | | |
| - wholly repayable within five years | 1,218 | 1,105 |
| - not wholly repayable within five years | 496 | 309 |
| Finance leases | - | 1 |
| Accretion expense (Note 32) | 796 | 60 |
| Less: amounts capitalised | (1,315) | (1,065) |
| | 3,220 | 2,762 |

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rate on such capitalised borrowings ranged from 5.265% to 5.832% (2005: 5.265%) per annum.

(Amounts in millions except for per share data or unless otherwise stated)

## 10 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of directors and supervisors for the years ended December 31, 2006 and 2005 are as follows:

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| Name | Fee for directors and supervisors | Salaries, allowances and other benefits | Contribution to retirement benefit scheme | Total | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Chairman:** | | | | | |
| Mr. Chen Geng | - | 770 | 27 | 797 | 790 |
| **Vice Chairman** | | | | | |
| Mr. Jiang Jiemin | - | 695 | 27 | 722 | 625 |
| **Executive directors:** | | | | | |
| Mr. Su Shulin (ii) | - | 657 | 27 | 684 | 686 |
| Mr. Duan Wende | - | 657 | 27 | 684 | 686 |
| | - | 1,314 | 54 | 1,368 | 1,372 |
| **Non-executive directors:** | | | | | |
| Mr. Zheng Hu | - | - | - | - | - |
| Mr. Zhou Jiping | - | - | - | - | - |
| Mr. Wang Yilin | - | - | - | - | - |
| Mr. Zeng Yukang | - | - | - | - | - |
| Mr. Gong Huazhang | - | - | - | - | - |
| Mr. Jiang Fan | - | 444 | 17 | 461 | 33 |
| Mr. Chee-chen Tung | 275 | - | - | 275 | 275 |
| Mr. Liu Hongru | 279 | - | - | 279 | 274 |
| Mr. Franco Bernabè | 259 | - | - | 259 | 279 |
| Mr. Ren Chuanjun (i) | - | - | - | - | - |
| Mr. Zou Haifeng (i) | - | - | - | - | 283 |
| | 813 | 444 | 17 | 1,274 | 1,144 |
| **Supervisors:** | | | | | |
| Mr. Wang Fucheng | - | - | - | - | 530 |
| Mr. Wen Qingshan | - | - | - | - | - |
| Mr. Sun Xianfeng | - | - | - | - | - |
| Mr. Xu Fengli | - | 432 | 27 | 459 | 374 |
| Mr. Qin Gang | - | 282 | 13 | 295 | - |
| Mr. Li Yongwu | 330 | - | - | 330 | 12 |
| Mr. Wu Zhipan | 330 | - | - | 330 | 57 |
| Mr. Li Kecheng (i) | - | - | - | - | - |
| Mr. Sun Chongren (i) | - | - | - | - | 81 |
| Mr. Zhang Youcai (i) | - | - | - | - | - |
| | 660 | 714 | 40 | 1,414 | 1,054 |
| | 1,473 | 3,937 | 165 | 5,575 | 4,985 |

(Amounts in millions except for per share data or unless otherwise stated)

(i) No longer a director or supervisor since November 8, 2005.

(ii) No longer a director since November 24, 2006.

The emoluments of the directors and supervisors fall within the following bands (including directors and supervisors whose term expired during the year):

| | 2006 | 2005 |
|---|---|---|
| | **Number** | **Number** |
| RMB Nil – RMB 1 | 20 | 25 |

Fee for directors and supervisors disclosed above included RMB 813 thousand (2005: RMB 828 thousand) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2006 (2005: nil).

The five highest paid individuals in the Group for each of the two years ended December 31, 2006 and 2005 were also directors or supervisors and their emoluments are reflected in the analysis shown above.

During 2006 and 2005, the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company.

The Company has adopted a share option scheme which is a share appreciation right arrangement payable in cash to the recipients upon exercise of the rights which became effective on the initial public offering of the H shares of the Company on April 7, 2000. The directors, supervisors and senior executives of the Company are eligible for the scheme. 87,000,000 units of share appreciation rights were granted to senior executives. 35,000,000 units were granted to the directors and supervisors; of these 35,000,000 units, 33,130,000 units are outstanding, net of subsequent forfeiture of 1,870,000 units by a former independent director.

The rights can be exercised on or after April 8, 2003, the third anniversary of the grant, up to April 7, 2008. The exercise price is the price as at the initial public offering being HK $1.28 per share or approximately RMB 1.36 per share.

As at December 31, 2006, none of the holders of the share appreciation rights had exercised the rights. The liability for the units awarded under the scheme has been calculated based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet date to its fair value, and amounted to approximately RMB 1,167 (2005: RMB 630) at December 31, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

## 11 TAXATION

| | 2006 RMB | 2005 RMB |
|---|---|---|
| Income tax | 50,972 | 50,221 |
| Deferred tax (Note 31) | (1,196) | 3,959 |
| | 49,776 | 54,180 |

In accordance with the relevant PRC income tax rules and regulations, the PRC income tax rate applicable to the Group is principally 33% (2005: 33%). Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of reduced income tax rate to 15% through the year 2010 and accelerated depreciation of certain property, plant and equipment.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the statutory tax rate in the PRC applicable to the Group as follows :

| | 2006 RMB | 2005 RMB |
|---|---|---|
| Profit before taxation | 199,173 | 193,822 |
| Tax calculated at a tax rate of 33% | 65,727 | 63,961 |
| Prior year tax return adjustment | 243 | 364 |
| Effect of preferential tax rate | (14,169) | (10,744) |
| Tax effect of income not subject to tax | (1,602) | (427) |
| Tax effect of expenses not deductible for tax purposes | 2,466 | 1,026 |
| Effect of income taxes from international operations in excess of taxes at the PRC statutory tax rate | 1,512 | - |
| Tax effect of temporary differences in relation to certain crude oil sales which no longer existed at year end | (4,401) | - |
| Tax charge | 49,776 | 54,180 |

## 12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the consolidated financial statements of the Company to the extent of RMB 142,224 (2005: RMB 133,362) for the year ended December 31, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

## 13 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended December 31, 2006 have been computed by dividing profit for the year attributable to equity holders of the Company by the number of 179,021 million shares issued and outstanding for the year.

Basic and diluted earnings per share for the year ended December 31, 2005 have been computed by dividing profit for the year attributable to equity holders of the Company by the weighted average number of 176,770 million shares issued and outstanding for the year.

There are no potential dilutive ordinary shares.

## 14 DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

| | 2006 | 2005 |
|---|---|---|
| | RMB | RMB |
| Final dividends attributable to equity holders of the Company for 2004 (Note (i)) | - | 25,936 |
| Interim dividends attributable to equity holders of the Company for 2005 (Note (ii)) | - | 27,731 |
| Final dividends attributable to equity holders of the Company for 2005 (Note (iii)) | 32,282 | - |
| Interim dividends attributable to equity holders of the Company for 2006 (Note (iv)) | 36,307 | - |
| | 68,589 | 53,667 |

(i) Final dividends attributable to equity holders of the Company in respect of 2004 of RMB 0.147511 per share amounting to a total of RMB 25,936 were paid on June 10, 2005, and were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2005.

(ii) Interim dividends attributable to equity holders of the Company in respect of 2005 of RMB 0.157719 per share amounting to a total of RMB 27,731 were paid on September 30, 2005, and were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2005.

(iii) Final dividends attributable to equity holders of the Company in respect of 2005 of RMB 0.180325 per share amounting to a total of RMB 32,282 were paid on June 9, 2006, and were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2006.

(iv) Interim dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.202806 per share amounting to a total of RMB 36,307 were paid on September 26, 2006 and were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2006.

(v) At the meeting on March 19, 2007, the Board of Directors proposed final dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.154699 per share amounting to a total of RMB 27,694. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the balance sheet date and will be accounted for in equity as an appropriation of retained earnings in the year ending December 31, 2007 when approved at the forthcoming annual general meeting.

(Amounts in millions except for per share data or unless otherwise stated)

# 15 PROPERTY, PLANT AND EQUIPMENT

## Group

| Year Ended December 31, 2005 | Buildings | Oil and Gas Property | Plant and Equipment | Motor Vehicles | Other | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| **Cost or valuation** | | | | | | | |
| At beginning of the year | 64,824 | 428,577 | 250,840 | 9,397 | 6,705 | 39,137 | 799,480 |
| Additions | 1,394 | 14,308 | 1,292 | 1,744 | 122 | 119,199 | 138,059 |
| Transfers | 7,661 | 67,223 | 27,451 | - | 362 | (102,697) | - |
| Disposals or write off | (714) | (11,817) | (2,152) | (286) | (95) | - | (15,064) |
| Currency translation differences | (32) | (659) | (67) | (26) | (43) | (42) | (869) |
| At end of the year | 73,133 | 497,632 | 277,364 | 10,829 | 7,051 | 55,597 | 921,606 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At beginning of the year | (12,905) | (180,926) | (112,000) | (4,810) | (3,025) | (202) | (313,868) |
| Charge for the year | (3,454) | (25,819) | (18,234) | (955) | (749) | - | (49,211) |
| Disposals or write off | 329 | 3,054 | 1,279 | 200 | 76 | 104 | 5,042 |
| Currency translation differences | 1 | 275 | 23 | 10 | 12 | - | 321 |
| At end of the year | (16,029) | (203,416) | (128,932) | (5,555) | (3,686) | (98) | (357,716) |
| **Net book value** | | | | | | | |
| At end of the year | 57,104 | 294,216 | 148,432 | 5,274 | 3,365 | 55,499 | 563,890 |
| **Analysis of cost or valuation** | | | | | | | |
| At valuation (i) | 22,574 | 192,643 | 155,347 | 2,625 | 1,261 | - | 374,450 |
| At cost (ii) | 50,559 | 304,989 | 122,017 | 8,204 | 5,790 | 55,597 | 547,156 |
| | 73,133 | 497,632 | 277,364 | 10,829 | 7,051 | 55,597 | 921,606 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 52,779 | 289,820 | 131,411 | 4,787 | 2,810 | 55,499 | 537,106 |

(Amounts in millions except for per share data or unless otherwise stated)

## Group (continued)

| Year Ended December 31, 2006 | Buildings | Oil and Gas Property | Plant and Equipment | Motor Vehicles | Other | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| **Cost or valuation** | | | | | | | |
| At beginning of the year | 73,133 | 497,632 | 277,364 | 10,829 | 7,051 | 55,597 | 921,606 |
| Additions | 516 | 4,080 | 656 | 1,597 | 20 | 145,361 | 152,230 |
| Transfers | 7,156 | 85,178 | 33,621 | - | 989 | (126,944) | - |
| Disposals or write off | (723) | (11,420) | (3,756) | (297) | (102) | - | (16,298) |
| Currency translation differences | 61 | (149) | (50) | (17) | 18 | (122) | (259) |
| At end of the year | 80,143 | 575,321 | 307,835 | 12,112 | 7,976 | 73,892 | 1,057,279 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At beginning of the year | (16,029) | (203,416) | (128,932) | (5,555) | (3,686) | (98) | (357,716) |
| Charge for the year | (3,643) | (31,540) | (21,431) | (1,107) | (755) | (199) | (58,675) |
| Disposals or write off | 418 | 1,186 | 2,544 | 126 | 67 | - | 4,341 |
| Currency translation differences | (19) | 93 | 35 | 6 | (7) | - | 108 |
| At end of the year | (19,273) | (233,677) | (147,784) | (6,530) | (4,381) | (297) | (411,942) |
| **Net book value** | | | | | | | |
| At end of the year | 60,870 | 341,644 | 160,051 | 5,582 | 3,595 | 73,595 | 645,337 |
| **Analysis of cost or valuation** | | | | | | | |
| At valuation (i) | 21,851 | 497,971 | 151,591 | 2,328 | 1,159 | - | 674,900 |
| At cost (ii) | 58,292 | 77,350 | 156,244 | 9,784 | 6,817 | 73,892 | 382,379 |
| | 80,143 | 575,321 | 307,835 | 12,112 | 7,976 | 73,892 | 1,057,279 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 57,204 | 338,007 | 145,571 | 5,171 | 3,120 | 73,595 | 622,668 |

(Amounts in millions except for per share data or unless otherwise stated)

## Company

| Year Ended December 31, 2005 | Buildings | Oil and Gas Property | Plant and Equipment | Motor Vehicles | Other | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| **Cost or valuation** | | | | | | | |
| At beginning of the year | 44,615 | 274,742 | 201,119 | 5,517 | 5,055 | 25,579 | 556,627 |
| Additions | 1,381 | 8,641 | 4,121 | 1,211 | 36 | 91,904 | 107,294 |
| Transfers | 5,995 | 49,836 | 16,659 | - | 292 | (72,782) | - |
| Disposals or write off | (485) | (10,054) | (1,757) | (272) | (60) | - | (12,628) |
| At end of the year | 51,506 | 323,165 | 220,142 | 6,456 | 5,323 | 44,701 | 651,293 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At beginning of the year | (10,184) | (115,261) | (89,454) | (3,114) | (1,987) | (189) | (220,189) |
| Charge for the year | (2,042) | (17,686) | (14,718) | (596) | (428) | - | (35,470) |
| Disposals or write off | 125 | 2,654 | 1,122 | 189 | 48 | 104 | 4,242 |
| At end of the year | (12,101) | (130,293) | (103,050) | (3,521) | (2,367) | (85) | (251,417) |
| **Net book value** | | | | | | | |
| At end of the year | 39,405 | 192,872 | 117,092 | 2,935 | 2,956 | 44,616 | 399,876 |
| **Analysis of cost or valuation** | | | | | | | |
| At valuation (i) | 15,653 | 105,475 | 126,385 | 1,739 | 1,261 | - | 250,513 |
| At cost (ii) | 35,853 | 217,690 | 93,757 | 4,717 | 4,062 | 44,701 | 400,780 |
| | 51,506 | 323,165 | 220,142 | 6,456 | 5,323 | 44,701 | 651,293 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 37,962 | 186,148 | 100,937 | 2,648 | 2,365 | 44,616 | 374,676 |

(Amounts in millions except for per share data or unless otherwise stated)

## Company (continued)

| Year Ended December 31, 2006 | Buildings | Oil and Gas Property | Plant and Equipment | Motor Vehicles | Other | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| **Cost or valuation** | | | | | | | |
| At beginning of the year | 51,506 | 323,165 | 220,142 | 6,456 | 5,323 | 44,701 | 651,293 |
| Transfer from subsidiares | 291 | - | 6,341 | 59 | 58 | 201 | 6,950 |
| Additions | 311 | 3,582 | 576 | 1,034 | 8 | 110,273 | 115,784 |
| Transfers | 2,993 | 61,837 | 28,362 | - | 398 | (93,590) | - |
| Disposals or write off | (668) | (9,081) | (3,140) | (243) | (97) | - | (13,229) |
| At end of the year | 54,433 | 379,503 | 252,281 | 7,306 | 5,690 | 61,585 | 760,798 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At beginning of the year | (12,101) | (130,293) | (103,050) | (3,521) | (2,367) | (85) | (251,417) |
| Transfer from subsidiares | (71) | - | (3,213) | (24) | (43) | - | (3,351) |
| Charge for the year | (2,919) | (21,859) | (16,467) | (658) | (255) | (167) | (42,325) |
| Disposals or write off | 407 | 87 | 2,330 | 113 | 65 | - | 3,002 |
| At end of the year | (14,684) | (152,065) | (120,400) | (4,090) | (2,600) | (252) | (294,091) |
| **Net book value** | | | | | | | |
| At end of the year | 39,749 | 227,438 | 131,881 | 3,216 | 3,090 | 61,333 | 466,707 |
| **Analysis of cost or valuation** | | | | | | | |
| At valuation (i) | 14,985 | 323,850 | 123,245 | 1,496 | 1,164 | - | 464,740 |
| At cost (ii) | 39,448 | 55,653 | 129,036 | 5,810 | 4,526 | 61,585 | 296,058 |
| | 54,433 | 379,503 | 252,281 | 7,306 | 5,690 | 61,585 | 760,798 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 38,532 | 221,804 | 118,135 | 2,972 | 2,584 | 61,333 | 445,360 |

(i) Amount for which revaluations have been undertaken by independent valuers.

(ii) Cost of property, plant and equipment acquired or constructed since the applicable revaluation.

(Amounts in millions except for per share data or unless otherwise stated)

The additions of oil and gas properties of the Group for the year ended December 31, 2006 included RMB 3,589 (2005: RMB13,258) relating to the asset retirement obligations recognised during the year (Note 32).

The depreciation charge of the Group for the year ended December 31, 2006 included RMB 2,642 (2005: RMB 3,019) relating to impairment provision for property, plant and equipment. Of this amount, RMB 908 (2005: RMB 1,955) was related to the Chemicals and Marketing segment, RMB 1,734 (2005: RMB 372) related to the Refining and Marketing segment and RMB Nil (2005: RMB 692) related to the Exploration and Production segment.

Buildings owned by the Group are on leased land. The net book values of the buildings owned by the Group can be analysed by the following categories of lease terms:

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Short-term lease (less than 10 years) | 363 | 336 | 360 | 333 |
| Medium-term lease (10 to 50 years) | 60,507 | 56,768 | 39,389 | 39,072 |
| | 60,870 | 57,104 | 39,749 | 39,405 |

Substantially all the buildings of the Group are located in the PRC.

The net book values of property, plant and equipment under finance leases at the end of the years were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Exploration and Production | 45 | 45 | 45 | 45 |
| Refining and Marketing | - | - | - | - |
| Chemicals and Marketing | - | - | - | - |
| Accumulated depreciation | (18) | (12) | (18) | (12) |
| | 27 | 33 | 27 | 33 |

Finance leases are principally related to plant and equipment and generally contain purchase options at the end of the lease terms.

The following table indicates the changes to the Group's exploratory well costs, which are included in construction in progress, for the years ended December 31, 2006 and 2005.

(Amounts in millions except for per share data or unless otherwise stated)

| | 2006 | 2005 |
|---|---|---|
| | RMB | RMB |
| Beginning balance at January 1 | 8,296 | 5,751 |
| Additions to capitalised exploratory well costs pending the determination of proved reserves | 19,076 | 16,181 |
| Reclassified to wells, facilities, and equipment based on the determination of proved reserves | (8,880) | (7,089) |
| Capitalised exploratory well costs charged to expense | (9,494) | (6,547) |
| Ending balance at December 31 | 8,998 | 8,296 |
| Number of wells at year end | 869 | 993 |

The following table provides an aging of capitalised exploratory well costs based on the date the drilling was completed.

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | RMB | RMB |
| One year or less | 8,359 | 8,023 |
| Over one year | 639 | 273 |
| Balance at December 31 | 8,998 | 8,296 |

RMB 639 at December 31, 2006 for capitalised exploratory well costs over one year are principally related to wells that are under further evaluation of drilling results or pending completion of development planning to ascertain economic viability.

In 2006, cash payments of RMB 26,052 (2005: RMB 25,099) had been incurred in connection with exploration activities, including RMB 9,328 (2005: RMB 9,019) related to operating activities and RMB16,724 (2005: RMB16,080) related to investing activities.

A valuation of the Group's property, plant and equipment, excluding oil and gas reserves, was carried out during 1999 by independent valuers on a depreciated replacement costs basis.

The 1999 revaluation resulted in RMB 80,549 in excess of the carrying value immediately prior to the revaluation and a revaluation loss of RMB 1,122 on certain property, plant and equipment.

As at September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers, China United Assets Appraiser Co., Ltd, in the PRC on a depreciated replacement cost basis.

The September 2003 revaluation resulted in RMB 872 in excess of the carrying value immediately prior to the revaluation and a revaluation loss of RMB 1,257 on certain property, plant and equipment.

As at March 31, 2006, a revaluation of the Group's oil and gas properties was undertaken by independent valuers, China United Assets Appraiser Co., Ltd and China Enterprise Appraisals, on a depreciated replacement cost basis. The revaluation did not result in significant difference from their carrying value.

Bank borrowings are secured on property, plant and equipment with a net book value of RMB 39 (2005: RMB 75) at December 31, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

## 16 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The Group's interest in its principal associates and jointly controlled entities (all of which are unlisted), together with its share of their respective assets, liabilities, revenues, and profits, were as follows:

| Name | Country of Incorporation | Assets | Liabilities | Revenues | Profits | Interest Held % | Type of Share |
|---|---|---|---|---|---|---|---|
| At December 31, 2006 | | | | | | | |
| Dalian West Pacific Petrochemical Co., Ltd. | PRC | 3,410 | 2,608 | 10,188 | 6 | 28.4 | ordinary |
| China Marine Bunker (PetroChina) Co., Ltd. | PRC | 3,388 | 2,098 | 19,003 | 139 | 50.0 | ordinary |
| PetroKazakhstan Inc. | Canada | 22,642 | 1,240 | 144 | 43 | 67.0 | ordinary |
| Other | | 26,995 | 17,533 | 40,903 | 2,089 | 20.0-70.0 | ordinary |
| | | 56,435 | 23,479 | 70,238 | 2,277 | | |
| At December 31, 2005 | | | | | | | |
| Dalian West Pacific Petrochemical Co., Ltd. | PRC | 3,114 | 2,233 | 8,563 | 135 | 28.4 | ordinary |
| China Marine Bunker (PetroChina) Co., Ltd. | PRC | 3,210 | 2,098 | 14,021 | 127 | 50.0 | ordinary |
| Other | | 19,832 | 9,447 | 30,579 | 2,139 | 20.0-70.0 | ordinary |
| | | 26,156 | 13,778 | 53,163 | 2,401 | | |

Dividends received and receivable from associates and jointly controlled entities were RMB 1,730 (2005: RMB 634) in 2006.

In 2006, investments in associates and jointly controlled entities of RMB 59 (2005: RMB 1,104) were disposed of with a profit of RMB 10 (2005: Loss of RMB 2) incurred.

The Group acquired a 67% equity interest in PetroKazakhstan Inc. from CNPC International Limited, a subsidiary of CNPC, effective on December 28, 2006 for RMB 21,376. The revenue and profit discolosed in the table above represents the Group's share of PetoKazakhstan Inc.'s revenue and profit for the period from December 28, 2006 to December 31, 2006. Pursuant to the shareholders' agreement in relation to the acquistion of PetroKazakhstan Inc.,each shareholder has a veto right relating to certain financial and operating decisions, and is therefore considered as having joint control over PetroKazakhstan Inc.. In accordance with the Group's accounting policy, the Group accounts for its investment in PetroKazakhstan Inc., using the equity method of accounting from December 28, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

## 17 AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Unlisted available-for-sale investments | 2,562 | 1,907 | 1,510 | 1,638 |
| Less: Impairment provision | (508) | (677) | (499) | (665) |
| | 2,054 | 1,230 | 1,011 | 973 |

Available-for-sale investments comprise principally unlisted equity securities.

Dividend income from available-for-sale investments amounted to RMB 208 (2005: RMB 109) in 2006.

In 2006, available-for-sale investments of RMB 1 (2005: RMB 1,003) were disposed of with a profit of RMB 3 (2005: loss of RMB 27) incurred.

## 18 SUBSIDIARIES

The principal subsidiaries of the Company are:

| Company Name | Country of Incorporation | Paid-up Capital RMB | Type of Legal Entity | Attributable Equity Interest % | Principal Activities |
|---|---|---|---|---|---|
| * Daqing Oilfield Company Limited | PRC | 47,500 | Φ | 100.00 | Exploration, production and sale of crude oil and natural gas; production and sale of refined products |
| * Jinzhou Petrochemical Company Limited (i) | PRC | 788 | Ψ | 98.92 | Production and sale of oil and chemical products |
| * Jilin Chemical Industrial Company Limited (ii) | PRC | 3,561 | Ψ | 99.61 | Production and sale of chemical products |
| Daqing Yu Shu Lin Oilfield Company Limited | PRC | 1,272 | Φ | 88.16 | Exploration and production and sale of crude oil and natural gas |
| * Liaohe Jinma Oilfield Company Limited (iii) | PRC | 1,100 | Ψ | 99.49 | Exploration, production, transportation and sale of crude oil and natural gas |
| * CNPC Exploration and Development Company Limited | PRC | 100 | Φ | 50.00 | Exploration and production and sale of crude oil and natural gas outside of the PRC |

Φ -- Limited liability company.

Ψ -- Joint stock company with limited liability.

* -- Subsidiaries directly held by the Company as of December 31, 2006.

(i) Pursuant to the resolution passed at the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire all of the 150,000,000 outstanding A shares of Jinzhou Petrochemical Company Limited ("JPCL") from minority shareholders at RMB 4.25 per share. As at December 31, 2006, the Company had paid a total cash consideration of RMB 602 and acquired 141,497,463 A shares, representing approximately 17.97% of the total issued shares of JPCL. Upon this acquisition, the Company owns 98.92% of the outstanding shares of JPCL. The excess of the cost of purchase over the carrying value of the underlying assets and liabilities acquired was recorded in equity. As approved by China Securities Regulatory Commission, JPCL was delisted from the Shenzhen Stock Exchange on January 4, 2006.

(ii) Pursuant to the resolution passed by the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire all the 200,000,000 outstanding A shares and 964,778,000 H shares (including American Depositary Shares ("ADSs")) of Jilin Chemical Industrial Company Limited ("JCIC") from minority shareholders at RMB 5.25 per A share and HK$ 2.80 per H share respectively. As at December 31, 2006, the Company had paid a total cash consideration of RMB 3,799 and acquired 189,357,726 A shares and 961,495,999 H shares (including ADS), representing approximately 32.32% of the total issued shares of JCIC. Upon this acquisition, the Company owns 99.61% of the outstanding shares of JCIC. The excess of the cost of purchase over the carrying value of the underlying assets and liabilities acquired was recorded in equity. JCIC was delisted from the Stock Exchange of Hong Kong Limited and the New York Stock Exchange on January 23, 2006 and February 15, 2006, respectively. As approved by China Securities Regulatory Commission, JCIC was delisted from the Shenzhen Stock Exchange on February 20, 2006.

(iii) Pursuant to the resolution passed by the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire all of the 200,000,000 outstanding A shares of Liaohe Jinma Oilfield Company Limited ("LJOCL") from minority shareholders at RMB 8.80 per share. As at December 31, 2006, the Company had paid a total cash consideration of RMB 1,713 and acquired 194,360,943 A shares, representing approximately 17.67% of the total issued shares of LJOCL. Upon this acquisition, the Company owns 99.49% of the outstanding shares of LJOCL. The excess of the cost of purchase over the carrying value of the underlying assets and liabilities acquired was recorded in equity. As approved by China Securities Regulatory Commission, LJOCL was delisted from the Shenzhen Stock Exchange on January 4, 2006.

The acquisitions of interests from minority shareholders of the above non-wholly owned principal subsidiaries and another non-wholly owned subsidiary in the year ended December 31, 2006 resulted in a total adjustment to equity of RMB 2,156 (2005: RMB 1,438).

(Amounts in millions except for per share data or unless otherwise stated)

## 19 ADVANCE OPERATING LEASE PAYMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Land use rights | 12,184 | 9,786 | 9,069 | 7,000 |
| Advance lease payments | 8,284 | 6,449 | 6,707 | 4,933 |
| | 20,468 | 16,235 | 15,776 | 11,933 |

Land use rights have terms up to 50 years. Advance lease payments are principally for use of land sub-leased from entities other than the PRC land authorities. These advance operating lease payments are amortised over the related lease periods using the straight-line method.

## 20 INTANGIBLE AND OTHER ASSETS

### Group

| | December 31, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortisation | Net | Cost | Accumulated Amortisation | Net |
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Patents | 2,325 | (1,109) | 1,216 | 2,166 | (1,140) | 1,026 |
| Technical know-how | 276 | (103) | 173 | 325 | (209) | 116 |
| Other | 3,369 | (1,041) | 2,328 | 2,664 | (684) | 1,980 |
| Intangible assets | 5,970 | (2,253) | 3,717 | 5,155 | (2,033) | 3,122 |
| Other assets | | | 2,910 | | | 1,889 |
| | | | 6,627 | | | 5,011 |

### Company

| | December 31, 2006 | | | December 31, 2005 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortisation | Net | Cost | Accumulated Amortisation | Net |
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Patents | 1,793 | (691) | 1,102 | 1,505 | (810) | 695 |
| Technical know-how | 144 | (29) | 115 | 101 | (15) | 86 |
| Other | 2,747 | (846) | 1,901 | 2,109 | (502) | 1,607 |
| Intangible assets | 4,684 | (1,566) | 3,118 | 3,715 | (1,327) | 2,388 |
| Other assets | | | 2,502 | | | 1,595 |
| | | | 5,620 | | | 3,983 |

Patents principally represent expenditure incurred in acquiring processes and techniques that are generally protected by relevant government authorities. Technical know-how are amounts attributable to operational technology acquired in connection with purchase of equipment. The costs of technical know-how are included as part of the purchase price and are distinguishable.

(Amounts in millions except for per share data or unless otherwise stated)

## 21 INVENTORIES

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Crude oil and other raw materials | 24,143 | 22,396 | 16,964 | 17,888 |
| Work in progress | 5,493 | 5,933 | 5,156 | 5,157 |
| Finished goods | 47,263 | 35,131 | 38,578 | 28,880 |
| Spare parts and consumables | 41 | 43 | 32 | 32 |
| | 76,940 | 63,503 | 60,730 | 51,957 |
| Less: Write down in inventories | (902) | (770) | (460) | (419) |
| | 76,038 | 62,733 | 60,270 | 51,538 |

Inventories of the Group carried at net realisable value amounted to RMB 3,415 (2005: RMB 2,236) at December 31, 2006.

## 22 ACCOUNTS RECEIVABLE

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Accounts receivable due from third parties | 9,498 | 6,483 | 2,333 | 3,209 |
| Accounts receivable due from related parties | 2,247 | 2,145 | 1,847 | 1,465 |
| Less: Provision for impairment of receivables | (3,257) | (3,998) | (2,606) | (3,203) |
| | 8,488 | 4,630 | 1,574 | 1,471 |

Amounts due from related parties are interest free and unsecured (Note 39).

The aging analysis of accounts receivable at December 31, 2006 and December 31, 2005 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Within 1 year | 8,299 | 4,280 | 1,432 | 1,276 |
| Between 1 to 2 years | 33 | 70 | 32 | 41 |
| Between 2 to 3 years | 59 | 46 | 37 | 36 |
| Over 3 years | 3,354 | 4,232 | 2,679 | 3,321 |
| | 11,745 | 8,628 | 4,180 | 4,674 |

The Group offers its customers credit terms up to 180 days, except for certain selected customers.

(Amounts in millions except for per share data or unless otherwise stated)

## 23 PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Other receivables | 7,083 | 9,404 | 4,957 | 5,420 |
| Amounts due from related parties | | | | |
| - Subsidiaries | - | - | 7,890 | 14,689 |
| - Other | 15,925 | 13,524 | 9,223 | 8,270 |
| Less: Provision for impairment | (6,506) | (6,814) | (3,960) | (4,197) |
| | 16,502 | 16,114 | 18,110 | 24,182 |
| Advances to suppliers | 6,087 | 5,819 | 3,485 | 4,492 |
| Prepaid expenses | 326 | 279 | 190 | 195 |
| Other current assets | 366 | 461 | 267 | 390 |
| | 23,281 | 22,673 | 22,052 | 29,259 |

Other receivables consist primarily of taxes other than income taxes refund receivables, subsidies receivable, and receivables for the sale of materials and scrap.

Except for loans to related parties (Note 39(g)), amounts due from related parties are interest free, unsecured and with no fixed terms of repayment.

## 24 NOTES RECEIVABLE

Notes receivable represent mainly the bills of acceptance issued by banks for sale of goods and products. All notes receivable are due within one year.

## 25 INVESTMENTS IN COLLATERALISED LOANS

Securities, in the form of loans collateralised by principally PRC government bonds, purchased by the Group are recorded as investments in collateralised loans. These securities have terms ranging from 3 days to 182 days. The difference between the purchase price and the amount that the Group is expected to receive upon the maturity of these securities is accounted for as interest income and accrued over the lives of the corresponding securities using the effective yield method. Investments in collateralised loans are accounted for as collateralised financing transactions and are recorded at their contractual amounts plus interest accrued.

(Amounts in millions except for per share data or unless otherwise stated)

## 26 CASH AND CASH EQUIVALENTS

The weighted average effective interest rate on bank deposits was 1.95% (2005: 1.97%) for the year ended December 31, 2006.

## 27 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Trade payable | 22,490 | 13,749 | 10,529 | 8,462 |
| Advances from customers | 9,310 | 7,698 | 6,980 | 6,347 |
| Salaries and welfare payable | 8,844 | 7,353 | 7,634 | 6,020 |
| Accrued expenses | 10 | 4 | 9 | - |
| Dividends payable by subsidiaries to minority shareholders | 60 | 93 | - | - |
| Interest payable | 3 | 27 | 3 | 26 |
| Construction fee and equipment cost payables | 28,349 | 16,420 | 21,390 | 13,119 |
| One-time employee housing remedial payment payable | 933 | 1,174 | 933 | 1,174 |
| Other payables | 14,910 | 12,158 | 11,252 | 11,250 |
| Amounts due to related parties | | | | |
| -Subsidiaries | - | - | 30,428 | 39,590 |
| -Other | 35,273 | 41,082 | 30,842 | 27,245 |
| | 120,182 | 99,758 | 120,000 | 113,233 |

Other payables consist primarily of customer deposits.

Amounts due to related parties are interest-free, unsecured and with no fixed terms of repayment (Note 39).

The aging analysis of trade payable at December 31, 2006 and December 31, 2005 is as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Within 1 year | 19,994 | 12,876 | 9,514 | 7,914 |
| Between 1 to 2 years | 1,966 | 434 | 595 | 244 |
| Between 2 to 3 years | 196 | 85 | 144 | 51 |
| Over 3 years | 334 | 354 | 276 | 253 |
| | 22,490 | 13,749 | 10,529 | 8,462 |

(Amounts in millions except for per share data or unless otherwise stated)

## 28 BORROWINGS

### (a) Short-term borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Bank loans | | | | |
| - secured | 23 | 34 | - | 6 |
| - unsecured | 14,812 | 12,753 | 10,611 | 10,870 |
| Loans from fellow CNPC subsidiary | 320 | 520 | - | 120 |
| Other | 1 | 57 | 1 | 53 |
| | 15,156 | 13,364 | 10,612 | 11,049 |
| Current portion of long-term borrowings | 20,607 | 15,325 | 17,064 | 11,287 |
| | 35,763 | 28,689 | 27,676 | 22,336 |

(Amounts in millions except for per share data or unless otherwise stated)

### (b) Long-term borrowings

| | Interest Rates and Final Maturities | Group | | Company | |
|---|---|---|---|---|---|
| | | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | | RMB | RMB | RMB | RMB |
| **Renminbi – denominated borrowings:** | | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Majority floating interest rates ranging from 5.18% to 6.16% per annum as of December 31, 2006, with maturities through 2022 | 8,390 | 9,778 | 6,600 | 9,571 |
| Bank loans for working capital | Floating interest rate at 5.18% per annum as of December 31, 2006, with maturities through 2007 | 6,000 | 6,030 | 6,000 | 6,000 |
| Loans from fellow CNPC subsidiary for the development of oil fields and construction of refining plants | Floating interest rates ranging from 4.46% to 5.18% per annum as of December 31, 2006, with maturities through 2032 | 16,782 | 16,462 | 16,782 | 16,462 |
| Working capital loans from fellow CNPC subsidiary | Majority floating interest rates at 4.61% per annum as of December 31, 2006, with maturities through 2008 | 4,130 | 4,335 | 4,130 | 4,330 |
| Working capital loans | Fixed interest rates at 6.32% per annum with no fixed repayment term | 5 | 5 | 5 | 5 |
| Corporate debenture for the development of oil fields and construction of refining plants | Fixed interest rate at 4.50% per annum with maturities through 2007 | 1,365 | 1,350 | 1,365 | 1,350 |
| Corporate debenture for the development of oil and gas properties | Fixed interest rates ranging from 3.76% to 4.11% per annum with maturities through 2013 | 3,523 | 1,500 | 3,523 | 1,500 |

(Amounts in millions except for per share data or unless otherwise stated)

| | Interest Rates and Final Maturities | Group | | Company | |
|---|---|---|---|---|---|
| | | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | | RMB | RMB | RMB | RMB |
| **US Dollar – denominated borrowings:** | | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rates ranging from free to 9.00% per annum with maturities through 2038 | 969 | 1,404 | 444 | 424 |
| Bank loans for the development of oil fields and construction of refining plants | Floating interest rates ranging from 4.72% to 6.17% per annum as of December 31, 2006, with maturities through 2014 | 3,589 | 6,751 | 597 | 674 |
| Bank loans for working capital | Floating interest rates ranging from LIBOR plus 0.40% to LIBOR plus 5.00% per annum as of December 31, 2006 with maturities through 2008 | 1,326 | 1,362 | - | - |
| Bank loans for acquisition of overseas oil and gas properties | Floating interest rate at LIBOR plus 0.55% per annum as of December 31, 2006, with maturities through 2009 | 1,368 | 1,614 | - | - |
| Loans from fellow CNPC subsidiary for the development of oil fields and construction of refining plants | Floating interest rates ranging from LIBOR minus 0.25% to LIBOR plus 0.50% per annum as of December 31, 2006, with maturities through 2020 | 4,481 | 2,852 | 4,481 | 2,852 |
| Loans from fellow CNPC subsidiary for acquisition of overseas oil and gas properties | Floating interest rate at LIBOR plus 0.40% per annum as of December 31, 2006, with maturities through 2006 | - | 593 | - | - |
| Loans from fellow CNPC subsidiary for working capital | Floating interest rates ranging from LIBOR plus 0.50% to LIBOR plus 0.69% per annum as of December 31, 2006, with maturities through 2008 | 1,471 | 2,557 | - | - |

(Amounts in millions except for per share data or unless otherwise stated)

| | Interest Rates and Final Maturities | Group December 31, 2006 | Group December 31, 2005 | Company December 31, 2006 | Company December 31, 2005 |
|---|---|---|---|---|---|
| | | RMB | RMB | RMB | RMB |
| Loans for the development of oil fields and construction of refining plants | Fixed interest rate at 1.55% per annum with maturities through 2022 | 462 | 509 | 462 | 509 |
| Loans for working capital | Floating interest rate at LIBOR plus 0.35% per annum as of December 31, 2006, with maturities through 2008 | 650 | 668 | - | - |
| Corporate debenture for the development of oil fields and construction of refining plants | Fixed interest rate at 3.00% per annum with maturities through 2019 | 353 | 347 | - | - |
| Corporate debenture for the development of oil and gas properties | Fixed interest rate at 9.50% per annum with maturities through 2011 | 817 | 844 | - | - |
| Corporate debenture for the development of oil and gas properties | Fixed interest rate at 15.00% per annum with maturities through 2008 | 179 | 292 | - | - |
| **Japanese Yen – denominated borrowings:** | | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rates ranging from 2.42% to 5.30% per annum with maturities through 2010 | 75 | 226 | 34 | 134 |
| **Euro – denominated borrowings:** | | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rates ranging from 2.00% to 2.30% per annum with maturities through 2023 | 257 | 256 | 257 | 93 |
| **British Pound – denominated borrowings:** | | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rate at 2.85% per annum with maturities through 2007 | 49 | 160 | 49 | 160 |
| Total long-term borrowings | | 56,241 | 59,895 | 44,729 | 44,064 |
| Less: Current portion of long-term borrowings | | (20,607) | (15,325) | (17,064) | (11,287) |
| | | 35,634 | 44,570 | 27,665 | 32,777 |

(Amounts in millions except for per share data or unless otherwise stated)

For loans denominated in RMB with floating interest rates, the interest rates are re-set annually on the respective anniversary dates based on interest rates announced by the People's Bank of China. For loans denominated in currencies other than RMB with floating interest rates, the interest rates are re-set quarterly or semi-annually as stipulated in the respective agreements. Other loans represent loans from independent third parties other than banks. Interest free loans amounted to RMB 68 (2005: RMB 110) at December 31, 2006.

Borrowings of RMB 597 (2005: RMB 674) were guaranteed by CNPC and its subsidiaries at December 31, 2006.

The Group's borrowings include secured liabilities (bank borrowings) totalling RMB 359 (2005: RMB 1,108) at December 31, 2006. These bank borrowings are secured mostly over certain of the Group's properties and time deposits with maturities over one year.

| | Group | | Company | |
|---|---|---|---|---|
| | **December 31, 2006** | **December 31, 2005** | **December 31, 2006** | **December 31, 2005** |
| | **RMB** | **RMB** | **RMB** | **RMB** |
| Total borrowings: | | | | |
| - interest free | 68 | 110 | - | - |
| - at fixed rates | 20,850 | 19,640 | 16,706 | 14,948 |
| - at floating rates | 50,479 | 53,509 | 38,635 | 40,165 |
| | 71,397 | 73,259 | 55,341 | 55,113 |
| Weighted average effective interest rates: | | | | |
| - bank loans | 5.51% | 5.26% | 5.25% | 5.03% |
| - loans from fellow CNPC subsidiary | 4.98% | 4.90% | 4.92% | 4.85% |
| - other loans | 3.93% | 3.38% | 1.53% | 1.58% |
| - corporate debentures | 5.04% | 5.86% | 4.08% | 4.30% |

(Amounts in millions except for per share data or unless otherwise stated)

The carrying amounts and fair values of long-term borrowings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | Carrying Amounts | | | |
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Bank loans | 22,023 | 27,581 | 13,981 | 17,056 |
| Loans from fellow CNPC subsidiary | 26,864 | 26,799 | 25,393 | 23,644 |
| Corporate debentures | 6,237 | 4,333 | 4,888 | 2,850 |
| Other | 1,117 | 1,182 | 467 | 514 |
| | 56,241 | 59,895 | 44,729 | 44,064 |

| | Group | | Company | |
|---|---|---|---|---|
| | Fair Values | | | |
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Bank loans | 21,858 | 27,397 | 13,839 | 17,060 |
| Loans from fellow CNPC subsidiary | 26,861 | 26,795 | 25,389 | 23,640 |
| Corporate debentures | 5,852 | 4,173 | 4,449 | 2,664 |
| Other | 997 | 1,049 | 347 | 381 |
| | 55,568 | 59,414 | 44,024 | 43,745 |

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet dates. Such discount rates ranged from 0.53% to 6.54% per annum (2005: 0.13% to 7.45%) as of December 31, 2006 depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair value.

(Amounts in millions except for per share data or unless otherwise stated)

Maturities of long-term borrowings at the dates indicated below are as follows:

| Bank loans | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Within one year | 11,575 | 5,378 | 9,081 | 3,512 |
| Between one to two years | 6,781 | 11,009 | 3,765 | 9,042 |
| Between two to five years | 1,415 | 10,417 | 527 | 4,111 |
| After five years | 2,252 | 777 | 608 | 391 |
| | 22,023 | 27,581 | 13,981 | 17,056 |

| Loans other than bank loans | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| Within one year | 9,032 | 9,947 | 7,983 | 7,775 |
| Between one to two years | 5,016 | 7,364 | 3,782 | 6,381 |
| Between two to five years | 9,034 | 4,525 | 8,253 | 3,739 |
| After five years | 11,136 | 10,478 | 10,730 | 9,113 |
| | 34,218 | 32,314 | 30,748 | 27,008 |

(Amounts in millions except for per share data or unless otherwise stated)

## 29 SHARE CAPITAL

| | Group and Company | |
|---|---|---|
| | December 31, 2006 | December 31, 2005 |
| | RMB | RMB |
| Registered, issued and fully paid: | | |
| State-owned shares | 157,922 | 157,922 |
| H shares | 21,099 | 21,099 |
| | 179,021 | 179,021 |

| Number of shares of the Company (millions) | 2006 | 2005 |
|---|---|---|
| Beginning balance | 179,021 | 175,824 |
| Issue of shares | - | 3,197 |
| Ending balance | 179,021 | 179,021 |

In accordance with the Restructuring Agreement between CNPC and the Company effective as of November 5, 1999, the Company issued 160 billion state-owned shares in exchange for the assets and liabilities transferred to the Company by CNPC. The 160 billion state-owned shares were the initial registered capital of the Company with a par value of RMB 1.00 per share.

On April 7, 2000, the Company issued 17,582,418,000 shares, represented by 13,447,897,000 H shares and 41,345,210 ADSs (each representing 100 H shares) in a global initial public offering ("Global Offering") and the trading of the H shares and the ADSs on the Stock Exchange of Hong Kong Limited and the New York Stock Exchange commenced on April 7, 2000 and April 6, 2000, respectively. The H shares and ADSs were issued at prices of HK$ 1.28 per H share and US$ 16.44 per ADS respectively for which the net proceeds to the Company were approximately RMB 20 billion. The shares issued pursuant to the Global Offering rank equally with existing shares.

Pursuant to the approval of the China Securities Regulatory Commission, 1,758,242,000 state-owned shares of the Company owned by CNPC were converted into H shares for sale in the Global Offering.

In September 2005, the Company issued 3,196,801,818 new H shares at HK$ 6.00 per share and net proceeds to the Company amounted to approximately RMB 19,692. CNPC also sold 319,680,182 state-owned shares it held concurrently with PetroChina's sale of new H shares in September 2005.

Shareholders' rights are governed by the PRC Company Law that requires an increase in registered capital to be approved by the shareholders in shareholders' general meetings and the relevant PRC Government and regulatory authorities.

(Amounts in millions except for per share data or unless otherwise stated)

## 30 RESERVES

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RMB | RMB | RMB | RMB |
| **Revaluation Reserve** | | | | |
| Beginning balance | 79,946 | 79,946 | 79,946 | 79,946 |
| Ending balance | 79,946 | 79,946 | 79,946 | 79,946 |
| **Capital Reserve** | | | | |
| Beginning balance | (8,881) | (25,376) | (11,508) | (28,003) |
| Issue of shares (Note 29) | - | 16,495 | - | 16,495 |
| Ending balance | (8,881) | (8,881) | (11,508) | (11,508) |
| **Statutory Common Reserve Fund** (Note a) | | | | |
| Beginning balance | 48,736 | 36,071 | 41,301 | 28,636 |
| Transfer from retained earnings | 13,355 | 12,665 | 13,355 | 12,665 |
| Transfer from Statutory Common Welfare Fund | 27,837 | - | 24,172 | - |
| Ending balance | 89,928 | 48,736 | 78,828 | 41,301 |
| **Statutory Common Welfare Fund** (Note b) | | | | |
| Beginning balance | 27,837 | 21,504 | 24,172 | 17,839 |
| Transfer from retained earnings | - | 6,333 | - | 6,333 |
| Transfer to Statutory Common Reserve Fund | (27,837) | - | (24,172) | - |
| Ending balance | - | 27,837 | - | 24,172 |
| **Currency translation differences** | | | | |
| Beginning balance | (379) | (111) | - | - |
| Currency translation adjustments | (191) | (268) | - | - |
| Ending balance | (570) | (379) | - | - |
| **Other Reserves** | | | | |
| Beginning balance | (14,703) | (3,200) | (4,703) | (3,256) |
| Payment to CNPC for the acquisition of the refinery and petrochemical business | - | (9) | - | (9) |
| Purchase from minority interest of subsidiaries (Note 18) | (2,156) | (1,438) | (2,156) | (1,438) |
| Paid-in capital to CNPC E&D (Note 2) | - | (10,056) | - | - |
| Ending balance | (16,859) | (14,703) | (6,859) | (4,703) |
| | 143,564 | 132,556 | 140,407 | 129,208 |

(a) Pursuant to the PRC regulations and the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to a Statutory Common Reserve Fund ("Reserve Fund"). Appropriation to the Reserve Fund may be ceased when the fund aggregates to 50% of the Company's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

The Reserve Fund shall only be used to make good previous years' losses, to expand the Company's production operations, or to increase the capital of the Company. Upon approval by a resolution of shareholders' general meeting, the Company may convert its Reserve Fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the Reserve Fund after such issue is not less than 25% of the Company's registered capital.

(b) Pursuant to the Company Law of the PRC revised on October 27, 2005 and carried out as of January 1, 2006, the Company is required to cease to draw the statutory common welfare from January 1, 2006. In accordance with the Circular on Accounting Treatment Following the Implementation of "Company Law" issued by the Ministry of Finance of the PRC on March 15, 2006, the Company transferred the statutory common welfare fund balance as at the December 31, 2005 into Reserve Fund.

(c) According to the Company's Articles of Association, the distributable reserve is the lower of the retained earnings computed under PRC accounting regulations and IFRS. As of December 31, 2006, the Company's distributable reserve amounted to RMB 205,379 million which was computed under IFRS.

(d) As of December 31, 2006, revaluation surpluses realised through the depreciation or disposal of revalued assets amounted to approximately RMB 57,832 (2005: RMB 53,717).

(Amounts in millions except for per share data or unless otherwise stated)

## 31 DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 33%.

The movements in the deferred taxation account are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RMB | RMB | RMB | RMB |
| At beginning of the year | 20,759 | 16,902 | 9,125 | 7,489 |
| Transfer to profit and loss account (Note 11) | (1,196) | 3,959 | (2,645) | 1,636 |
| Currency translation difference | 20 | (102) | - | - |
| At end of the year | 19,583 | 20,759 | 6,480 | 9,125 |

Deferred tax balances are attributable to the following items:

| | Group | | Company | |
|---|---|---|---|---|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| | RMB | RMB | RMB | RMB |
| **Deferred tax assets:** | | | | |
| Current: | | | | |
| Provisions, primarily for receivables and inventories | 7,107 | 4,767 | 4,684 | 3,641 |
| Tax losses of subsidiaries | 2,175 | 1,014 | - | - |
| Non current: | | | | |
| Shut down of manufacturing assets and impairment of long-term assets | 4,342 | 4,022 | 3,498 | 3,524 |
| Other | 457 | 796 | 410 | 449 |
| Total deferred tax assets | 14,081 | 10,599 | 8,592 | 7,614 |
| Deferred tax liabilities: | | | | |
| Current: | | | | |
| Sales | - | 4,401 | - | 4,401 |
| Non current: | | | | |
| Accelerated tax depreciation | 33,398 | 26,615 | 14,877 | 12,116 |
| Other | 266 | 342 | 195 | 222 |
| Total deferred tax liabilities | 33,664 | 31,358 | 15,072 | 16,739 |
| Net deferred tax liabilities | 19,583 | 20,759 | 6,480 | 9,125 |

There were no material unrecognised tax losses at December 31, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

## 32 ASSET RETIREMENT OBLIGATIONS

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RMB | RMB | RMB | RMB |
| At beginning of the year | 14,187 | 919 | 8,068 | - |
| Liabilities incurred | 3,589 | 13,258 | 2,863 | 8,068 |
| Liabilities settled | (105) | (1) | (99) | - |
| Accretion expense (Note 9) | 796 | 60 | 437 | - |
| Currency translation differences | 14 | (49) | - | - |
| At end of the year | 18,481 | 14,187 | 11,269 | 8,068 |

Asset retirement obligations are in relation to oil and gas properties (Note 15).

Before the issuance of two provincial regulations which set forth specific abandonment and disposal processes for oil and gas exploration and production activities in 2005, the Group was neither legally obligated to, nor was the Group under any constructive obligations to take any abandonment measures for its retired oil and gas properties located in China. For safety purposes, the Group performed capping or plugging on certain wells, which were considered to be in areas with extensive human use at the time of the abandonment.

In 2005, the Group established standard abandonment procedures, including plugging all retired wells, dismantling all retired metering stations and other related facilities and performing site restoration, in response to the issuance of two provincial regulations which set forth specific abandonment and disposal processes for oil and gas exploration and production activities. As a result of this change in legal requirements as well as the Group's practice in China, the Group became legally obligated to take abandonment measures for its retired oil and gas properties located in the two provinces where the new regulations were enacted and is constructively obligated to take abandonment measures for its retired oil and gas properties located in all other provinces in China.

The Group does not have any assets that are legally restricted for purposes of setting asset retirement obligations.

The 2005 opening balance represented the obligation recognised by CNPC E&D, acquired by the Company through a business combination under common control (Note 2).

(Amounts in millions except for per share data or unless otherwise stated)

## 33 CASH FLOWS FROM OPERATING ACTIVITIES

| | Notes | 2006 | 2005 |
|---|---|---|---|
| | | RMB | RMB |
| Profit for the year | | 149,397 | 139,642 |
| Adjustments for: | | | |
| Taxation | 11 | 49,776 | 54,180 |
| Depreciation, depletion and amortisation | | 61,388 | 51,305 |
| Dry hole costs | 15 | 9,494 | 6,547 |
| Share of profit of associates and jointly controlled entities | | (2,277) | (2,401) |
| Reversal of provision for impairment of receivables, net | 6 | (316) | (455) |
| Write down in inventories, net | 6 | 140 | (139) |
| Impairment of available-for-sale investments, net | 6 | 32 | (23) |
| Loss on disposal of property, plant and equipment | 6 | 1,753 | 2,026 |
| (Profit)/Loss on disposal of associates and jointly controlled entities | 16 | (10) | 2 |
| (Profit)/Loss on disposal of available-for-sale investment | 17 | (3) | 27 |
| Loss on disposal of intangible and other assets | | 192 | 106 |
| Dividend income | 17 | (208) | (109) |
| Interest income | | (2,066) | (1,924) |
| Interest expense | 9 | 3,220 | 2,762 |
| Advance payments on long-term operating leases | | (5,694) | (5,170) |
| Changes in working capital: | | | |
| Accounts receivable and prepaid expenses and other current assets | | (3,115) | 165 |
| Inventories | | (13,445) | (15,896) |
| Accounts payable and accrued liabilities | | 5,346 | 22,089 |
| **CASH GENERATED FROM OPERATIONS** | | 253,604 | 252,734 |
| Interest received | | 1,993 | 1,917 |
| Interest paid | | (3,700) | (3,628) |
| Income taxes paid | | (53,795) | (47,138) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | | 198,102 | 203,885 |

## 34 PENSIONS

The Group participates in various employee retirement benefit plans organised by the PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at rates ranging from 16% to 22% of the employees' basic salary for the relevant periods. Expenses incurred by the Group in connection with the retirement benefit plans for the year ended December 31, 2006 were RMB 4,645 (2005: RMB 3,104).

## 35 FINANCIAL INSTRUMENTS

The Group holds or issues various financial instruments which expose it to credit, interest rate, foreign exchange rate and fair value risks. In addition, the Group's operations are affected by certain commodity price movements. The Group historically has not used derivative instruments for hedging or trading purposes. Such activities are subject to policies approved by the Group's senior management. Substantially all of the financial instruments the Group holds is for purposes other than trading. The Group regards an effective market risk system as an important element of the Group's treasury function and is continuously enhancing its systems. A primary objective is to implement certain methodologies to better measure and monitor risk exposures.

### (a) Credit risk

The carrying amounts of accounts receivable included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. Majority of cash and time deposits are placed with state-owned banks and financial institutions. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

### (b) Interest rate risk

The Group is exposed to the risk arising from changing interest rates. A detailed analysis of the Group's borrowings, together with their respective interest rates and maturity dates, are included in Note 28.

### (c) Foreign exchange rate risk

From July 21, 2005, the PRC government reformed the Renminbi exchange rate regime and implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi is still regulated in capital projects. The exchange rates of Renminbi are affected by domestic and international economic developments and political changes, and supply and demand for Renminbi. Future exchange rates of Renminbi against other currencies could vary significantly from the current exchange rates. As Renminbi is the functional currency of the Company and most of its consolidated subsidiaries, the fluctuation of the exchange rate of Renminbi may have positive or negative impacts on the results of operations of the Group. An appreciation of Renminbi against United States Dollar may decrease the Group's turnover, but the cost for acquiring imported materials and equipment may be reduced. A devaluation of Renminbi against United States Dollar may not have a negative impact on the Group's turnover but may increase the cost for acquiring imported materials and equipment as well as the debt obligations denominated in foreign currencies of the Group.

(Amounts in millions except for per share data or unless otherwise stated)

### (d) Commodity price risk

The Group is engaged in a wide range of petroleum-related activities. The oil and gas markets are affected by global and regional demands and supplies. Prices of onshore crude oil are determined with reference to the prices of crude oil on the international markets. A decline in the prices of crude oil and refined products could adversely affect the Group's financial position. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil and refined products. Therefore, the Group is exposed to general price fluctuations of oil and gas commodities in 2007 and thereafter.

### (e) Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, short-term investments (comprising investments in collaterialised loans and time deposits with maturities over three months but within one year), accounts receivable and trade payable, other receivables and payables, lease obligations, short-term borrowings and floating rate long-term borrowings. The fair value of the fixed rate long-term borrowings is likely to be different from their carrying amounts. As the majority of the borrowings are at floating rates, the fair value of these borrowings approximate their carrying amounts. Analysis of the fair value and carrying amounts of long-term borrowings are presented in Note 28.

## 36 CONTINGENT LIABILITIES

### (a) Bank and other guarantees

At December 31, 2006, the Group had contingent liabilities in respect of guarantees made to China Petroleum Finance Company Limited ("CP Finance"), a subsidiary of CNPC, and a State-controlled bank from which it is anticipated that no material liabilities will arise.

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | RMB | RMB |
| Guarantee of borrowings of associates from CP Finance | 162 | 187 |
| Guarantee of borrowings of third party from a State-controlled bank | 41 | - |
| | 203 | 187 |

### (b) Environmental liabilities

CNPC and the Group have operated in China for many years. China has adopted extensive environmental laws and regulations that affect the operation of the oil and gas industry. The outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. Under existing legislation, however, management believes that there are no probable liabilities, except for the amounts which have already been reflected in the financial statements, that will have a material adverse effect on the financial position of the Group.

On November 13, 2005, explosions occurred at a manufacturing facility of a branch of the Company located in the Jilin Province. The investigation into the accident was completed by the PRC Government in December 2006. Based on the results of the investigation, the Company paid a fine of RMB 1 in settlement of all liability related to the accident.

**(c) Legal contingencies**

The Group is the named defendant in certain insignificant lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the management of the Group believes that any resulting liabilities will not have a material adverse effect on the financial position of the Group.

**(d) Leasing of roads, land and buildings**

According to the Restructuring Agreement entered into between the Company and CNPC in 1999 upon the formation of the Company, CNPC has undertaken to the Company the following:

• CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;

• CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively-owned land on which 116 service stations owned by the Company are located; and

• CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

As at December 31, 2006, CNPC had obtained formal land use right certificates in relation to 27,494 out of the above-mentioned 28,649 parcels of land, some building ownership certificates for the above-mentioned buildings, but has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively-owned land. The Directors of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. In management's opinion, the outcome of the above events will not have a material adverse effect on the operating results or the financial position of the Group.

**(e) Group insurance**

Except for limited insurance coverage for vehicles and certain assets subject to significant operating risks, the Group does not carry any other insurance for property, facilities or equipment with respect to its business operations. In addition, the Group does not carry any third-party liability insurance against claims relating to personal injury, property and environmental damages or business interruption insurance since such insurance coverage is not customary in China. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management believes that it may have a material impact on the operating results but will not have a material adverse effect on the financial position of the Group.

(Amounts in millions except for per share data or unless otherwise stated)

## 37 COMMITMENTS

### (a) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to 50 years and usually do not contain renewal options. Future minimum lease payments as of December 31, 2006 and 2005 under non-cancellable operating leases are as follows:

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | RMB | RMB |
| First year | 3,099 | 3,208 |
| Second year | 2,749 | 2,595 |
| Third year | 2,714 | 2,558 |
| Fourth year | 3,040 | 2,437 |
| Fifth year | 3,102 | 2,926 |
| Thereafter | 80,076 | 81,266 |
| | 94,780 | 94,990 |

### (b) Capital commitments

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | RMB | RMB |
| Contracted but not provided for | | |
| Oil and gas properties | 273 | 847 |
| Plant and equipment | 8,658 | 12,496 |
| Other | 262 | 22 |
| | 9,193 | 13,365 |

(Amounts in millions except for per share data or unless otherwise stated)

**(c) Long-term natural gas supply commitments**

The Group markets a portion of its natural gas production under long-term take-or-pay contracts. Under these contracts, the customers are required to take or pay, and the Group is obligated to deliver, minimum quantities of natural gas annually. The prices for the natural gas are based on those approved by the PRC State Development and Reform Commission at the time of deliveries.

At December 31, 2006 and December 31, 2005, future minimum delivery commitments under the contracts are as follows:

| | December 31, 2006 |
|---|---|
| | Quantities (billion of cubic feet) |
| 2007 | 720 |
| 2008 | 885 |
| 2009 | 943 |
| 2010 | 1,002 |
| 2011 | 1,050 |
| 2012 and thereafter | 10,460 |
| | 15,060 |

| | December 31, 2005 |
|---|---|
| | Quantities (billion of cubic feet) |
| 2006 | 451 |
| 2007 | 583 |
| 2008 | 639 |
| 2009 | 704 |
| 2010 | 583 |
| 2011 and thereafter | 5,528 |
| | 8,488 |

**(d) Exploration and production licenses**

The Company is obligated to make annual payments with respect to its exploration and production licenses to the Ministry of Land and Resources. Payments incurred were approximately RMB 662 (2005: RMB 534) for the year ended December 31, 2006.

(Amounts in millions except for per share data or unless otherwise stated)

Estimated annual payments for the next five years are as follows:

| | December 31, 2006 |
|---|---|
| | RMB |
| 2007 | 750 |
| 2008 | 780 |
| 2009 | 800 |
| 2010 | 850 |
| 2011 | 900 |

| | December 31, 2005 |
|---|---|
| | RMB |
| 2006 | 681 |
| 2007 | 712 |
| 2008 | 712 |
| 2009 | 712 |
| 2010 | 850 |

## 38 MAJOR CUSTOMERS

The Group's major customers are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Revenue | % to Total Revenue | Revenue | % to Total Revenue |
| | RMB | % | RMB | % |
| Sinopec | 44,028 | 6% | 35,848 | 6% |
| CNPC | 27,714 | 4% | 19,823 | 4% |
| | 71,742 | 10% | 55,671 | 10% |

## 39 RELATED PARTY TRANSACTIONS

CNPC, the immediate parent of the Company, is a state-controlled enterprise directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to CNPC Group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither CNPC nor the PRC government publishes financial statements available for public use.

The Group has extensive transactions with other members of the CNPC Group. Because of the relationship, it is possible that the terms of the transactions between the Group and other members of the CNPC Group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

As a result of the restructuring of CNPC to form the Company in 1999, the Company and CNPC entered into a Comprehensive Products and Services Agreement for a range of products and services which may be required and requested by either party; a Land Use Rights Leasing Contract under which CNPC leases 42,476 parcels of land located throughout the PRC to the Company; and a Buildings Leasing Contract under which CNPC leases 191 buildings located throughout the PRC to the Company.

The terms of the current Comprehensive Products and Services Agreement were amended in 2005 and the agreement is effective through December 31, 2008. The products and services to be provided by the CNPC Group to the Company under the Comprehensive Products and Services Agreement include construction and technical services, production services, supply of material services, social services, ancillary services and financial services. The products and services are provided in accordance with (1) state-prescribed prices; or (2) where there is no state-prescribed price, relevant market prices; or (3) where neither (1) nor (2) is applicable, actual cost incurred; or the agreed contractual price, being the actual cost plus a margin of no more than 15% for certain construction and technical services, and 3% for all other types of services.

The Land Use Rights Leasing Contract provides for the lease of an aggregate area of approximately 1,145 million square meters of land located throughout the PRC to business units of the Group for a term of 50 years at an annual fee of RMB 2,000. The total fee payable for the lease of all such property may, after every 10 years, be adjusted by agreement between the Company and CNPC.

Under the Buildings Leasing Contract, 191 buildings covering an aggregate area of 269,770 square meters located throughout the PRC are leased at an aggregate annual fee of RMB 39 for a term of 20 years. The Company also entered into a Supplemental Buildings Leasing Agreement with CNPC in September 2002 to lease an additional 404 buildings covering approximately 442,730 square meters at an annual rental of RMB 157. The Supplemental Buildings Leasing Agreement will expire at the same time as the Buildings Leasing Agreement.

(Amounts in millions except for per share data or unless otherwise stated)

In addition to the related party information shown elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years and balances arising from related party transactions at the end of the years indicated below:

**(a) Bank deposits**

| | Note | December 31, 2006 | December 31, 2005 |
|---|---|---|---|
| | | RMB | RMB |
| Bank deposits balance | | | |
| CP Finance | (i) | 8,937 | 24,356 |
| State-controlled banks and other financial institutions | | 37,744 | 55,139 |
| | | 46,681 | 79,495 |

| | Note | Year Ended December 31 | |
|---|---|---|---|
| | | 2006 | 2005 |
| | | RMB | RMB |
| Interest income from bank deposits | | | |
| CP Finance | (i) | 81 | 33 |
| State-controlled banks and other financial institutions | | 1,804 | 1,582 |
| | | 1,885 | 1,615 |

(i) CP Finance is a subsidiary of CNPC and a non-bank financial institution, established with the approval from the People's Bank of China. The deposits yield interest at prevailing saving deposit rates.

(Amounts in millions except for per share data or unless otherwise stated)

**(b) Sales of goods and services**

| | Year Ended December 31 | |
|---|---|---|
| | **2006** | **2005** |
| | **RMB** | **RMB** |
| Sales of goods | | |
| Associates and jointly controlled entities | | |
| - Crude oil | 5,023 | 883 |
| - Refined products | 19,779 | 9,766 |
| - Chemical products | 90 | 308 |
| Fellow subsidiaries (CNPC Group) | | |
| - Crude oil | 1,546 | 155 |
| - Refined products | 16,847 | 12,364 |
| - Chemical products | 5,691 | 4,805 |
| - Natural gas | 1,346 | 820 |
| - Other | 277 | 650 |
| Other state-controlled enterprises | | |
| - Crude oil | 39,632 | 37,168 |
| - Refined products | 68,370 | 86,505 |
| - Chemical products | 8,979 | 18,275 |
| - Natural gas | 7,713 | 8,127 |
| | 175,293 | 179,826 |

Sales of goods to related parties are conducted at market prices.

| | Year Ended December 31 | |
|---|---|---|
| | **2006** | **2005** |
| | **RMB** | **RMB** |
| Sales of services | | |
| - Fellow subsidiaries (CNPC Group) | 2,007 | 1,029 |
| - Other state-controlled enterprises | 7,761 | 3,592 |
| | 9,768 | 4,621 |

Sales of services principally represent the provision of services in connection with the transportation of crude oil and natural gas at market prices.

(Amounts in millions except for per share data or unless otherwise stated)

### (c) Purchases of goods and services

| | Notes | Year Ended December 31 2006 RMB | 2005 RMB |
|---|---|---|---|
| Purchases of goods | (i) | | |
| Associates and jointly controlled entities | | 9,868 | 4,220 |
| Other state-controlled enterprises | | 50,995 | 59,719 |
| Purchases of services | | | |
| Associates and jointly controlled entities | | 126 | 43 |
| Fellow subsidiaries (CNPC Group) | | | |
| - Fees paid for construction and technical services | (ii) | | |
| - exploration and development services | (iii) | 50,485 | 39,653 |
| - other construction and technical services | (iv) | 32,256 | 25,010 |
| - Fees for production services | (v) | 32,730 | 23,344 |
| - Social service charges | (vi) | 2,301 | 2,153 |
| - Ancillary service charges | (vii) | 2,458 | 2,345 |
| - Commission expense and other charges | (viii) | 1,241 | 1,612 |
| Other state-controlled enterprises | (ix) | 7,703 | 6,390 |
| | | 190,163 | 164,489 |

(i) Purchases of goods principally represent the purchases of raw materials, spare parts and low cost consumables at market prices.

(ii) Under the Comprehensive Products and Services Agreement entered into between CNPC and the Company, certain construction and technical services provided by CNPC are charged at cost plus an additional margin of no more than 15%, including exploration and development services and oilfield construction services.

(iii) Direct costs for exploration and development services comprise geophysical survey, drilling, well cementing, logging and well testing.

(iv) The fees paid for other construction and technical services comprise fees for construction of refineries and chemical plants and technical services in connection with oil and gas exploration and production activities such as oilfield construction, technology research, engineering and design, etc..

(v) The fees paid for production services comprise fees for the repair of machinery, supply of water, electricity and gas at the state-prescribed prices, provision of services such as communications, transportation, fire fighting, asset leasing, environmental protection and sanitation, maintenance of roads, manufacture of replacement parts and machinery at cost or market prices.

(Amounts in millions except for per share data or unless otherwise stated)

(vi) These represent expenditures for social welfare and support services which are charged at cost.

(vii) Ancillary service charges represent mainly fees for property management, the provision of training centers, guesthouses, canteens, public shower rooms, etc., at market prices.

(viii) CNPC purchases materials on behalf of the Company and charges commission thereon. The commission is calculated at rates ranging from 1% to 5% of the goods purchased.

(ix) Purchases of services from other state-controlled enterprises principally represent the purchases of the construction and technical services at market prices.

**(d) Purchases of assets**

| | Year Ended December 31 | |
|---|---|---|
| | **2006** | **2005** |
| | **RMB** | **RMB** |
| Purchases of assets | | |
| Associates and jointly controlled entities | 2 | 11 |
| Fellow subsidiaries (CNPC Group) | 1,795 | 5,870 |
| Other state-controlled enterprises | 6,617 | 6,813 |
| | 8,414 | 12,694 |

Purchases of assets principally represent the purchases of manufacturing equipment, office equipment and transportation equipment, etc., at market prices.

(Amounts in millions except for per share data or unless otherwise stated)

**(e) Year-end balances arising from sales/purchases of goods/services/assets**

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | RMB | RMB |
| Accounts receivable from related parties at the end of the year | | |
| - Associates and jointly controlled entities | 82 | 12 |
| - Fellow subsidiaries (CNPC Group) | 599 | 337 |
| - Other state-controlled enterprises | 1,566 | 1,796 |
| | 2,247 | 2,145 |
| Less: Provision for impairment | | |
| - Associates and jointly controlled entities | (5) | - |
| - Fellow subsidiaries (CNPC Group) | (232) | (246) |
| - Other state-controlled enterprises | (861) | (924) |
| | (1,098) | (1,170) |
| | 1,149 | 975 |
| Prepayment and other receivables from related parties at the end of the year | | |
| - Associates and jointly controlled entities | 4,307 | 3,634 |
| - Parent (CNPC) | 196 | 103 |
| - Fellow subsidiaries (CNPC Group) | 7,220 | 7,430 |
| - Other state-controlled enterprises | 4,202 | 2,357 |
| | 15,925 | 13,524 |
| Less: Provision for impairment | | |
| - Associates and jointly controlled entities | (212) | (240) |
| - Fellow subsidiaries (CNPC Group) | (4) | (70) |
| - Other state-controlled enterprises | (299) | (330) |
| | (515) | (640) |
| | 15,410 | 12,884 |
| Accounts payable and accrued liabilities to related parties at the end of the year | | |
| - Associates and jointly controlled entities | 1,444 | 3,118 |
| - Parent (CNPC) | 2,321 | 2,516 |
| - Fellow subsidiaries (CNPC Group) | 26,046 | 20,285 |
| - Other state-controlled enterprises | 5,462 | 15,163 |
| | 35,273 | 41,082 |

(Amounts in millions except for per share data or unless otherwise stated)

| | Year Ended December 31 | |
|---|---|---|
| | 2006 | 2005 |
| | RMB | RMB |
| Provision for impairment of accounts receivable from related parties charged to the profit and loss account | | |
| - Associates and jointly controlled entities | 5 | - |
| - Fellow subsidiaries (CNPC Group) | (11) | 24 |
| - Other state-controlled enterprises | (52) | (62) |
| | (58) | (38) |
| Provision for impairment of prepayment and other receivables from related parties charged to the profit and loss account | | |
| - Associates and jointly controlled entities | (20) | (55) |
| - Fellow subsidiaries (CNPC Group) | (32) | 55 |
| - Other state-controlled enterprises | 12 | (35) |
| | (40) | (35) |

**(f) Leases**

| | Notes | Year Ended December 31 | |
|---|---|---|---|
| | | 2006 | 2005 |
| | | RMB | RMB |
| Advance operating lease payments paid to related parties | (i) | | |
| - Parent (CNPC) | | - | 232 |
| - Other state-controlled enterprises | | 49 | 33 |
| | | 49 | 265 |
| Other operating lease payments paid to related parties | | | |
| - Parent (CNPC) | (ii) | 2,276 | 2,192 |
| - Other state-controlled enterprises | | 16 | 5 |
| | | 2,292 | 2,197 |

(i) Advance operating lease payments principally represent the advance payment paid for the long-term operating lease of land and gas stations at prices prescribed by local governments or market prices.

(ii) Other operating lease payments to CNPC principally represent the rental paid for the operating lease of land and buildings at the prices prescribed in the Land Use Rights Leasing Contract, the Buildings Leasing Contract and Supplemental Buildings Leasing Agreement with CNPC.

(Amounts in millions except for per share data or unless otherwise stated)

| | December 31, 2006 RMB | December 31, 2005 RMB |
|---|---|---|
| Operating lease payable to related parties | | |
| - Parent (CNPC) | - | 2 |
| - Other state-controlled enterprises | 7 | 1 |
| | 7 | 3 |

**(g) Loans**

| | Year Ended December 31 | |
|---|---|---|
| | 2006 | 2005 |
| **Loans to related parties** | **RMB** | **RMB** |
| Loans to associates: | | |
| Beginning of the year | 1,640 | 569 |
| Loans advanced during year | 1,034 | 1,392 |
| Loans repayments received | (884) | (321) |
| Interest charged | 154 | 29 |
| Interest received | (144) | (29) |
| End of the year | 1,800 | 1,640 |

Loans to associates are included in prepaid expenses and other current assets (Note 23).

The loans to related parties are mainly with interest rates ranging from 9.07% to 9.36% per annum as of December 31, 2006 (2005: 5.26% to 8.54%)

(Amounts in millions except for per share data or unless otherwise stated)

| | | Year Ended December 31 | |
|---|---|---|---|
| | Notes | 2006 | 2005 |
| **Loans from related parties** | | RMB | RMB |
| Loans from CP Finance: | (i) | | |
| Beginning of the year | | 27,319 | 29,932 |
| Loans received during year | | 7,408 | 10,187 |
| Loans repayments paid | | (7,565) | (12,803) |
| Interest charged | | 1,327 | 1,297 |
| Interest paid | | (1,305) | (1,294) |
| End of the year | | 27,184 | 27,319 |
| Loans from state-controlled banks and other financial institutions: | (ii) | | |
| Beginning of the year | | 31,178 | 36,562 |
| Loans received during year | | 28,457 | 24,715 |
| Loans repayments paid | | (26,797) | (30,105) |
| Interest charged | | 1,598 | 1,670 |
| Interest paid | | (1,626) | (1,664) |
| End of the year | | 32,810 | 31,178 |
| Loans from other related parties: | (iii) | | |
| Beginning of the year | | 62 | 16 |
| Loans received during year | | - | 51 |
| Loans repayments paid | | (57) | (5) |
| Interest charged | | 2 | 1 |
| Interest paid | | (2) | (1) |
| End of the year | | 5 | 62 |

(i) The loans from CP Finance are mainly with interest rates ranging from 4.46% to 6.06% per annum as of December 31, 2006, with maturities through 2032 (2005: 4.45% to 5.70%).

(ii) The loans from state-controlled banks and other financial institutions are mainly with interest rates ranging from zero to 8.66% per annum as of December 31, 2006, with maturities through 2038 (2005: zero to 8.66%).

(iii) The loans from other related parties are mainly with interest rates at 6.32% per annum as of December 31, 2006, and with no fixed repayment term (2005: 6.32%).

The secured loans from related parties amounted to RMB 23 at December 31, 2006 (December 31, 2005: RMB 54).

The guaranteed loans amounted to RMB 597 at December 31, 2006 (December 31, 2005: RMB 674). All these guaranteed loans are from non-related parties long-term and guaranteed by CNPC.

(Amounts in millions except for per share data or unless otherwise stated)

### (h) Key management compensation

| | Year Ended December 31 | |
|---|---|---|
| | 2006 | 2005 |
| | RMB'000 | RMB'000 |
| Fee for key management personnel | | |
| - Directors and supervisors | 1,473 | 897 |
| Salaries, allowances and other benefits | | |
| - Directors and supervisors | 3,937 | 4,031 |
| - Other key management | 2,447 | 2,207 |
| Contribution to retirement benefit scheme | | |
| - Directors and supervisors | 165 | 57 |
| - Other key management | 133 | 37 |
| | 8,155 | 7,229 |

As at December 31, 2006, none of the key management personnel had exercised the stock appreciation rights. The liability for the units awarded to key management personnel amounted to approximately RMB 329 (December 31, 2005: RMB 177) at December 31, 2006.

### (i) Contingent liabilities

The Group has disclosed in Note 36 in respect of the contingent liabilities arising from the guarantees made for related parties.

### (j) Collateral for borrowings

The Group pledged time deposits with maturities over one year as collaterals with Citibank, N.A, Singapore Branch for the borrowings of subsidiaries and associates. As at December 31, 2006, the balance of these time deposits amounted to RMB 2,499 (December 31, 2005: RMB 3,428), including RMB 312 (December 31, 2005: RMB 968) for the borrowings of subsidiaries and RMB 2,187 (December 31, 2005: RMB 2,460) for the borrowings of associates.

## 40 SEGMENT INFORMATION

The Group is engaged in a broad range of petroleum related activities through its four major business segments: Exploration and Production, Refining and Marketing, Chemicals and Marketing and Natural Gas and Pipeline.

The Exploration and Production segment is engaged in the exploration, development, production and sales of crude oil and natural gas.

The Refining and Marketing segment is engaged in the refining, transportation, storage and marketing of crude oil and petroleum products.

The Chemicals and Marketing segment is engaged in the production and sale of basic petrochemical products, derivative petrochemical products, and other chemical products.

The Natural Gas and Pipeline segment is engaged in the sale of natural gas and the transmission of natural gas, crude oil and refined products.

In addition to these four major business segments, the Other segment includes the assets, income and expenses relating to cash management, financing activities, the corporate center, research and development, and other business services to the operating business segments of the Group.

Most assets and operations of the Group are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns. In addition to its operations in the PRC, the Group also has oversea operations through subsidiaries engaging in the exploration and production of crude oil and natural gas.

The accounting policies of the operating segments are the same as those described in Note 3 - “Summary of Principal Accounting Policies”.

Operating segment information for the years ended December 31, 2005 and 2006 is presented below:

(Amounts in millions except for per share data or unless otherwise stated)

## Primary reporting format – business segments

| Year Ended December 31, 2005 | Exploration and Production | Refining and Marketing | Chemicals and Marketing | Natural Gas and Pipeline | Other | Total |
|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Turnover (including intersegment) | 337,208 | 428,494 | 73,978 | 26,214 | - | 865,894 |
| Less: Intersegment sales | (270,943) | (33,019) | (4,754) | (4,949) | - | (313,665) |
| Turnover from external customers | 66,265 | 395,475 | 69,224 | 21,265 | - | 552,229 |
| Depreciation, depletion and amortisation | (30,896) | (8,964) | (6,869) | (4,478) | (98) | (51,305) |
| Segment result | 220,452 | 2,116 | 6,896 | 3,639 | (1,357) | 231,746 |
| Other costs | (12,372) | (21,926) | (3,620) | (456) | (1,201) | (39,575) |
| Profit/(loss) from operations | 208,080 | (19,810) | 3,276 | 3,183 | (2,558) | 192,171 |
| Finance costs | | | | | | (750) |
| Share of profit of associates and jointly controlled entities | 1,851 | 165 | 15 | - | 370 | 2,401 |
| Profit before taxation | | | | | | 193,822 |
| Taxation | | | | | | (54,180) |
| Profit for the year | | | | | | 139,642 |
| Interest income (including intersegment) | 3,912 | 998 | 387 | 100 | 5,763 | 11,160 |
| Less: Intersegment interest income | | | | | | (9,236) |
| Interest income from external entities | | | | | | 1,924 |
| Interest expense (including intersegment) | (3,631) | (2,659) | (636) | (1,105) | (3,967) | (11,998) |
| Less: Intersegment interest expense | | | | | | 9,236 |
| Interest expense to external entities | | | | | | (2,762) |
| Segment assets | 460,814 | 207,724 | 76,439 | 69,232 | 631,696 | 1,445,905 |
| Elimination of intersegment balances | | | | | | (680,216) |
| Investments in associates and jointly controlled entities | 5,470 | 4,531 | 250 | - | 2,127 | 12,378 |
| Total assets | | | | | | 778,067 |
| Segment capital expenditure - for property, plant and equipment | 83,214 | 16,454 | 13,569 | 11,137 | 427 | 124,801 |
| Segment liabilities | 146,616 | 97,918 | 30,559 | 40,847 | 161,753 | 477,693 |
| Other liabilities | | | | | | 47,731 |
| Elimination of intersegment balances | | | | | | (291,024) |
| Total liabilities | | | | | | 234,400 |

(Amounts in millions except for per share data or unless otherwise stated)

### Primary reporting format – business segments (continued)

| Year Ended December 31, 2006 | Exploration and Production | Refining and Marketing | Chemicals and Marketing | Natural Gas and Pipeline | Other | Total |
|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Turnover (including intersegment) | 421,340 | 543,299 | 82,791 | 38,917 | 1,080 | 1,087,427 |
| Less: Intersegment sales | (339,619) | (44,806) | (7,983) | (5,617) | (424) | (398,449) |
| Turnover from external customers | 81,721 | 498,493 | 74,808 | 33,300 | 656 | 688,978 |
| Depreciation, depletion and amortisation | (37,080) | (12,080) | (6,417) | (5,263) | (548) | (61,388) |
| Segment result | 232,404 | (5,206) | 8,208 | 9,470 | (3,058) | 241,818 |
| Other costs | (12,544) | (23,958) | (3,150) | (484) | (3,706) | (43,842) |
| Profit/(loss) from operations | 219,860 | (29,164) | 5,058 | 8,986 | (6,764) | 197,976 |
| Finance costs | | | | | | (1,080) |
| Share of profit of associates and jointly controlled entities | 1,889 | 333 | 38 | 1 | 16 | 2,277 |
| Profit before taxation | | | | | | 199,173 |
| Taxation | | | | | | (49,776) |
| Profit for the year | | | | | | 149,397 |
| Interest income (including intersegment) | 4,853 | 1,471 | 634 | 157 | 7,171 | 14,286 |
| Less: Intersegment interest income | | | | | | (12,220) |
| Interest income from external entities | | | | | | 2,066 |
| Interest expense (including intersegment) | (5,043) | (3,790) | (679) | (1,614) | (4,314) | (15,440) |
| Less: Intersegment interest expense | | | | | | 12,220 |
| Interest expense to external entities | | | | | | (3,220) |
| Segment assets | 507,073 | 248,027 | 81,032 | 75,433 | 729,079 | 1,640,644 |
| Elimination of intersegment balances | | | | | | (801,437) |
| Investments in associates and jointly controlled entities | 27,127 | 5,587 | 153 | 20 | 69 | 32,956 |
| Total assets | | | | | | 872,163 |
| Segment capital expenditure - for property, plant and equipment | 105,192 | 19,206 | 10,681 | 11,309 | 2,358 | 148,746 |
| Segment liabilities | 185,185 | 115,352 | 28,024 | 43,644 | 171,059 | 543,264 |
| Other liabilities | | | | | | 62,021 |
| Elimination of intersegment balances | | | | | | (350,713) |
| Total liabilities | | | | | | 254,572 |

(Amounts in millions except for per share data or unless otherwise stated)

Note (a) – Intersegment sales are conducted principally at market price.

Note (b) – Segment result is profit from operations before other costs. Other costs include selling, general and administrative expenses and other net expense.

Note (c) – Segment results for the years ended December 31, 2005 and 2006 included impairment for property, plant and equipment (Note 15).

Note (d) – Other liabilities mainly include income tax payable, other taxes payable and deferred taxation.

Note (e) – Elimination of intersegment balances represents elimination of intersegment accounts and investments.

Note (f) – Effective January 1, 2006, the results of operations, together with the corresponding assets and liabilities, of certain research and development activities of the Group are reclassified from the Exploration and Production segment, the Refining and Marketing segment, the Chemicals and Marketing segment and the Natural Gas and Pipeline segment to the Other segment to reflect the changes in the manner under which these activities are managed. The results of operations, together with the corresponding assets and liabilities, of these research and development activities were included in the previously reported segments in the segment information for the year ended December 31, 2005. Selected financial data of these research and development activities as of December 31, 2005 and for the year ended December 31, 2005 are as follows:

| | Exploration and Production | Refining and Marketing | Chemicals and Marketing | Natural Gas and Pipeline | Total |
|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB |
| Turnover (including intersegment) | 543 | - | 39 | - | 582 |
| Turnover from external customers | 21 | - | 29 | - | 50 |
| Depreciation, depletion and amortisation | (295) | (26) | (64) | (6) | (391) |
| Segment result | (714) | (88) | (162) | (21) | (985) |
| Other costs | (664) | (96) | (81) | (42) | (883) |
| Loss from operations | (1,378) | (184) | (243) | (63) | (1,868) |
| Share of profit of associates and jointly controlled entities | 3 | - | - | - | 3 |
| Interest income | - | - | - | - | - |
| Interest expense | (15) | - | - | - | (15) |
| Segment assets | 2,163 | 272 | 374 | 52 | 2,861 |
| Segment liabilities | 1,183 | 320 | 164 | 21 | 1,688 |

## Secondary reporting format – geographical segments

| | Turnover | | Total assets | | Capital expenditure | |
|---|---|---|---|---|---|---|
| Year Ended December 31 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | RMB | RMB | RMB | RMB | RMB | RMB |
| PRC | 665,267 | 531,520 | 811,919 | 717,934 | 142,371 | 119,505 |
| Other (Exploration and Production) | 23,711 | 20,709 | 60,244 | 60,133 | 6,375 | 5,296 |
| | 688,978 | 552,229 | 872,163 | 778,067 | 148,746 | 124,801 |

## 41 SUBSEQUENT EVENT

On March 16, 2007, the corporate income tax law was passed at the Fifth Session of Tenth National People's Congress of PRC whereby all enterprises with operations in the PRC will be subject to the same statutory income tax rate. The Group will evaluate the impact of the new tax law on the operating results and the financial position of the Group when the new tax law is implemented.

## 42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 19, 2007 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 16, 2007.