PRICEWATERHOUSECOOPERS 普华永道

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REPORT OF THE AUDITORS

PwC ZT Shen Zi (2008) No.10001

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To the Shareholders of PetroChina Company Limited:

We have audited the accompanying financial statements of PetroChina Company Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated and company balance sheets as at December 31, 2007, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and notes to these financial statements.

1 Management's Responsibility for the financial statements

Management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises. This responsibility includes:

(i) Designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

(ii) Selecting and applying appropriate accounting policies; and

(iii) Making accounting estimates that are reasonable in the circumstances.

2 Auditor's responsibility

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

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

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

3 Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and of the Group as at December 31, 2007, and their financial performance and cash flows for the year then ended in accordance with the Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company	Certified Public Accountant	Heping Feng
Shanghai, the People's Republic of China, March 19, 2008	Certified Public Accountant	Liwen Zhang

PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT DECEMBER 31, 2007

(All amounts in RMB millions unless otherwise stated)

ASSETS	Notes	December 31, 2007 The Group	December 31, 2006 The Group	December 31, 2007 The Company	December 31, 2006 The Company
Current assets					
Cash at bank and on hand	7(1)	88,589	54,070	78,332	48,029
Notes receivable	7(2)	4,735	2,844	3,988	2,097
Accounts receivable	7(3a)	18,419	8,488	2,131	583
Advances to suppliers	7(4)	20,386	12,664	16,086	8,924
Interest receivable		109	81	109	81
Dividends receivable		18	13	85	80
Other receivables	7(3b)	15,444	10,515	24,173	12,903
Inventories	7(5)	88,467	76,038	70,284	60,269
Current portion of non-current assets		59	-	59	-
Other current assets		2	4	2	4
Total current assets		236,228	164,717	195,249	132,970
Non-current assets					
Available-for-sale financial assets	7(6)	2,530	1,860	1,456	793
Long-term equity investments	7(7)	22,686	30,361	104,691	115,624
Fixed assets	7(8)	247,803	231,590	199,411	179,669
Oil and gas properties	7(9)	326,328	270,496	231,921	191,866
Construction in progress	7(11)	105,634	64,652	85,597	53,471
Construction materials	7(10)	6,927	8,664	5,455	7,614
Fixed assets pending disposal		287	279	282	249
Intangible assets	7(12)	20,022	16,127	16,356	12,233
Long-term prepaid expenses	7(13)	12,028	11,194	9,924	9,210
Deferred tax assets	7(25a)	12,871	14,391	9,048	7,790
Other non-current assets		748	813	-	-
Total non-current assets		757,864	650,427	664,141	578,519
TOTAL ASSETS		994,092	815,144	859,390	711,489

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

Chairman and President Jiang Jiemin	Director Zhou Jiping	Chief Financial Officer Zhou Mingchun

PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT DECEMBER 31, 2007(CONTINUED)

(All amounts in RMB millions unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	December 31, 2007 The Group	December 31, 2006 The Group	December 31, 2007 The Company	December 31, 2006 The Company
Current liabilities					
Short-term borrowings	7(14)	18,734	15,156	17,898	10,612
Notes payable	7(15)	1,143	1,045	-	-
Accounts payable	7(16)	104,460	77,936	66,877	56,386
Advances from customers	7(17)	12,433	11,590	10,443	8,977
Employee compensation payable	7(18)	11,585	11,368	10,751	9,426
Taxes payable	7(19)	22,808	24,174	13,793	19,630
Interest payable		173	200	61	67
Dividends payable		89	95	-	-
Other payables	7(20)	17,849	18,367	46,582	45,044
Provisions	7(21)	715	115	75	95
Current portion of non-current liabilities	7(22)	11,652	20,407	9,029	16,998
Other current liabilities		13	12	-	-
Total current liabilities		201,654	180,465	175,509	167,235
Non-current liabilities					
Deferred income		76	-	62	-
Long-term borrowings	7(23)	35,305	30,401	29,044	24,165
Debentures payable	7(24)	4,383	4,645	3,500	3,500
Long-term payables		57	50	56	50
Grants payable		774	737	710	679
Provisions	7(21)	24,761	18,481	15,307	11,269
Deferred tax liabilities	7(25b)	11,883	12,480	6,598	5,543
Other non-current liabilities		128	290	123	233
Total non-current liabilities		77,367	67,084	55,400	45,439
Total liabilities		279,021	247,549	230,909	212,674
Shareholders' equity					
Share capital	7(26)	183,021	179,021	183,021	179,021
Capital surplus	7(27)	122,192	59,797	125,848	63,348
Surplus reserves	7(28)	102,696	89,928	91,596	78,828
Undistributed profits	7(29)	270,544	213,255	228,016	177,618
Currency translation differences		(1,086)	(534)	-	-
Equity attributable to equity holders of the Company		677,367	541,467	628,481	498,815
Minority interest	7(30)	37,704	26,128	-	-
Total shareholders' equity		715,071	567,595	628,481	498,815
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		994,092	815,144	859,390	711,489

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

Chairman and President Jiang Jiemin	Director Zhou Jiping	Chief Financial Officer Zhou Mingchun

PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts in RMB millions unless otherwise stated)

Items	Notes	2007 The Group	2006 The Group	2007 The Company	2006 The Company
1. Operating income	7(31)	835,037	688,978	595,734	505,632
Less: Cost of sales	7(31)	(487,112)	(362,590)	(405,180)	(337,585)
Tax and levies on operations	7(32)	(68,678)	(51,692)	(41,786)	(31,437)
Selling expenses		(41,345)	(35,050)	(33,293)	(27,133)
General and administrative expenses		(49,324)	(44,429)	(35,044)	(32,252)
Finance expenses	7(33)	(2,869)	(1,322)	(1,331)	(687)
Asset impairment losses	7(34)	1,948	(2,914)	1,529	(1,938)
Add: Investment income	7(35)	6,301	1,344	57,614	66,470
Including: Share of profit of associates and jointly controlled entities		6,283	1,253	673	478
2. Operating profit		193,958	192,325	138,243	141,070
Add: Non-operating income	7(36a)	3,098	1,645	2,179	1,665
Less: Non-operating expenses	7(36b)	(4,231)	(4,180)	(3,824)	(3,708)
Including: Losses on disposal of non-current assets		(1,576)	(1,962)	(1,358)	(1,404)
3. Profit before taxation		192,825	189,790	136,598	139,027
Less: Taxation	7(37)	(49,331)	(47,043)	(8,915)	(7,328)
4. Net profit		143,494	142,747	127,683	131,699
Net profit attributable to equity holders of the Company		134,574	136,229	127,683	131,699
Minority interest		8,920	6,518	-	-
5. Earnings per share (based on Group's net profit attributable to equity holders of the Company)					
Basic earnings per share (RMB, yuan)	7(38)	0.75	0.76	0.71	0.74
Diluted earnings per share (RMB, yuan)	7(38)	0.75	0.76	0.71	0.74

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

Chairman and President	Director	Chief Financial Officer
Jiang Jiemin	Zhou Jiping	Zhou Mingchun

PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts in RMB millions unless otherwise stated)

Items	Notes	2007 The Group	2006 The Group	2007 The Company	2006 The Company
1.Cash flows from operating activities					
Cash received from sales of goods and rendering of services		965,346	820,389	695,780	602,560
Refund of taxes and levies		960	728	854	595
Cash received relating to other operating activities		697	201	2,237	7,104
Sub-total of cash inflows		967,003	821,318	698,871	610,259
Cash paid for goods and services		(459,872)	(368,323)	(415,800)	(354,847)
Cash paid to and on behalf of employees		(50,420)	(37,670)	(35,378)	(26,927)
Payments of taxes and levies		(188,367)	(156,416)	(92,248)	(64,418)
Cash paid relating to other operating activities	7(39d)	(57,525)	(53,467)	(54,287)	(46,255)
Sub-total of cash outflows		(756,184)	(615,876)	(597,713)	(492,447)
Net cash flows from operating activities	7(39a)	210,819	205,442	101,158	117,812
2.Cash flows from investing activities					
Cash received from disposal of investments		7,927	407	1,389	296
Consolidation of PetroKazakhstan Inc.	7(7a)	1,542	-	-	-
Deregistration of wholly owned subsidiaries to branches	6	-	-	32	-
Cash received from returns on investments		3,425	4,092	67,561	68,417
Net cash received from disposal of fixed assets, oil and gas properties, intangible assets and other long-term assets		1,014	348	425	193
Sub-total of cash inflows		13,908	4,847	69,407	68,906
Cash paid to acquire fixed assets, oil and gas properties, intangible assets and other long-term assets		(180,692)	(139,167)	(137,395)	(113,690)
Cash paid to acquire investments		(20,262)	(27,832)	(19,468)	(11,860)
Including: Cash paid to purchase shares of listed subsidiaries	6	(149)	(4,095)	(149)	(4,095)
Sub-total of cash outflows		(200,954)	(166,999)	(156,863)	(125,550)
Net cash flows from investing activities		(187,046)	(162,152)	(87,456)	(56,644)
3.Cash flows from financing activities					
Cash received from capital contributions		1,349	1,492	-	-
Including: Cash received from minority shareholders' capital contributions to subsidiaries		1,349	1,492	-	-
Cash received from borrowings		57,492	44,378	43,308	31,064
Cash received from issuance of A shares	7(26)	66,243	-	66,243	-
Cash received relating to other financing activities		427	260	407	148
Sub-total of cash inflows		125,511	46,130	109,958	31,212

PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007(CONTINUED)

(All amounts in RMB millions unless otherwise stated)

Items	Notes	2007 The Group	2006 The Group	2007 The Company	2006 The Company
Cash repayments of borrowings		(57,098)	(45,925)	(38,782)	(31,343)
Cash payments for interest expenses and distribution of dividends or profits		(74,821)	(75,323)	(69,199)	(71,761)
Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders		(6,150)	(3,033)	-	-
Cash payments relating to other financing activities		(470)	(260)	(376)	(61)
Sub-total of cash outflows		(132,389)	(121,508)	(108,357)	(103,165)
Net cash flows from financing activities		(6,878)	(75,378)	1,601	(71,953)
4.Effect of foreign exchange rate changes on cash and cash equivalents		40	(258)	-	-
5.Net increase / (decrease) in cash and cash equivalents		16,935	(32,346)	15,303	(10,785)
Add: Cash and cash equivalents at beginning of the year	7(39b)	48,559	80,905	45,029	55,814
6.Cash and cash equivalents at end of the year	7(39c)	65,494	48,559	60,332	45,029

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

Chairman and President	Director	Chief Financial Officer
Jiang Jiemin	Zhou Jiping	Zhou Mingchun

PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts in RMB millions unless otherwise stated)

		Shareholders' equity attributable to the Company						
Items	Notes	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Currency translation differences	Minority interest	Total shareholders' equity
Balance at December 31, 2005		179,021	72,276	76,573	164,065	-	25,020	516,955
First time adoption of Accounting Standards for Business Enterprises	14	-	(10,313)	-	(5,095)	(289)	(1,024)	(16,721)
Balance at January 1, 2006		179,021	61,963	76,573	158,970	(289)	23,996	500,234
Changes in the year of 2006		-	(2,166)	13,355	54,285	(245)	2,132	67,361
Net profit		-	-	-	136,229	-	6,518	142,747
Losses recognised directly in equity		-	(2,166)	-	-	(245)	(2,878)	(5,289)
Currency translation differences		-	-	-	-	(245)	(208)	(453)
Purchase of minority interest in subsidiaries	6	-	(2,166)	-	-	-	(2,569)	(4,735)
Other		-	-	-	-	-	(101)	(101)
Sub-total		-	(2,166)	-	136,229	(245)	3,640	137,458
Shareholders' contribution and withdrawal		-	-	-	-	-	1,492	1,492
Capital contribution by shareholders		-	-	-	-	-	1,492	1,492
Profit distribution		-	-	13,355	(81,944)	-	(3,000)	(71,589)
Appropriation to surplus reserves		-	-	13,355	(13,355)	-	-	-
Distribution to shareholders		-	-	-	(68,589)	-	(3,000)	(71,589)
Balance at December 31, 2006		179,021	59,797	89,928	213,255	(534)	26,128	567,595

PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007 (CONTINUED)

(All amounts in RMB millions unless otherwise stated)

		Shareholders' equity attributable to the Company						
Items	**Notes**	**Share capital**	**Capital surplus**	**Surplus reserves**	**Undistributed profits**	**Currency translation differences**	**Minority interest**	**Total shareholders' equity**
Balance at January 1, 2007		179,021	59,797	89,928	213,255	(534)	26,128	567,595
Changes in the year of 2007		4,000	62,395	12,768	57,289	(552)	11,576	147,476
Net profit		-	-	-	134,574	-	8,920	143,494
Gains or losses recognised directly in equity		-	152	-	-	(552)	(708)	(1,108)
Currency translation differences		-	-	-	-	(552)	(620)	(1,172)
Purchase of minority interest in subsidiaries	6	-	(109)	-	-	-	(69)	(178)
Fair value changes of available-for-sale financial assets		-	261	-	-	-	-	261
Other		-	-	-	-	-	(19)	(19)
Sub-total		-	152	-	134,574	(552)	8,212	142,386
Shareholders' contribution and withdrawal		4,000	62,243	-	-	-	9,508	75,751
Capital contribution by shareholders - issuance of A shares	7(26)	4,000	62,243	-	-	-	-	66,243
Capital contribution by shareholders - other		-	-	-	-	-	1,349	1,349
Consolidation of PetroKazakhstan Inc.	7(7a)	-	-	-	-	-	8,159	8,159
Profit distribution		-	-	12,768	(77,285)	-	(6,144)	(70,661)
Appropriation to surplus reserves		-	-	12,768	(12,768)	-	-	-
Distribution to shareholders		-	-	-	(64,517)	-	(6,144)	(70,661)
Balance at December 31, 2007		183,021	122,192	102,696	270,544	(1,086)	37,704	715,071

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

Chairman and President	Director	Chief Financial Officer
Jiang Jiemin	Zhou Jiping	Zhou Mingchun

PETROCHINA COMPANY LIMITED
COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

(All amounts in RMB millions unless otherwise stated)

Items	Notes	Share capital	Capital surplus	Surplus reserves	Undistributed profits	Total shareholders' equity
Balance at December 31, 2005		179,021	72,276	65,473	175,165	491,935
First time adoption of Accounting Standards for Business Enterprises		-	(8,928)	-	(47,302)	(56,230)
Balance at January 1, 2006		179,021	63,348	65,473	127,863	435,705
Changes in the year of 2006		-	-	13,355	49,755	63,110
Net profit		-	-	-	131,699	131,699
Profit distribution		-	-	13,355	(81,944)	(68,589)
Appropriation to surplus reserves		-	-	13,355	(13,355)	-
Distribution to shareholders		-	-	-	(68,589)	(68,589)
Balance at December 31, 2006		179,021	63,348	78,828	177,618	498,815
Balance at January 1, 2007		179,021	63,348	78,828	177,618	498,815
Changes in the year of 2007		4,000	62,500	12,768	50,398	129,666
Net profit		-	-	-	127,683	127,683
Gains recognised directly in equity		-	257	-	-	257
Currency translation differences related to investment in associates and jointly controlled entities		-	(3)	-	-	(3)
Fair value changes of available-for-sale financial assets		-	260	-	-	260
Sub-total		-	257	-	127,683	127,940
Shareholders' contribution and withdrawal	7(26)	4,000	62,243	-	-	66,243
Capital contribution by shareholders - issuance of A shares		4,000	62,243	-	-	66,243
Profit distribution		-	-	12,768	(77,285)	(64,517)
Appropriation to surplus reserves		-	-	12,768	(12,768)	-
Distribution to shareholders		-	-	-	(64,517)	(64,517)
Balance at December 31, 2007		183,021	125,848	91,596	228,016	628,481

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

Chairman and President	Director	Chief Financial Officer
Jiang Jiemin	Zhou Jiping	Zhou Mingchun

1 COMPANY BACKGROUND

PetroChina Company Limited (the "Company") was established as a joint stock company with limited liability on November 5, 1999 by China National Petroleum Corporation ("CNPC") as the sole proprietor in accordance with the approval Guo Jing Mao Qi Gai [1999] No. 1024 "Reply on the approval of the establishment of PetroChina Company Limited" from the State Economic and Trade Commission of the People's Republic of China (the "China" or "PRC"). CNPC restructured ("the Restructuring") and injected its core business in exploration, development, production and sale of crude oil and natural gas, refining and marketing of petroleum products, production and sale of chemicals and research and development activities, and the related assets and liabilities into the Company. CNPC is a wholly state-owned company registered in China. The Company and its subsidiaries are collectively referred to as the "Group".

The Group is principally engaged in: the exploration, development, production and sale of crude oil and natural gas, the refining and marketing of the petroleum products, the production and sale of chemicals, etc.. The principal subsidiaries of the Group are listed in Note 6.

The financial statements were approved by the Board of Directors on March 19, 2008.

2 BASIS OF PREPARATION

On January 1, 2007 the Group adopted the Basic Standard and 38 specific standards of Accounting Standards for Business Enterprises issued by the Ministry of Finance (the "MOF") on February 15, 2006, Application Guidance of Accounting Standard for Business Enterprises, Interpretation of Accounting Standards for Business Enterprises and other regulations issued thereafter (hereafter referred to as the "Accounting Standard for Business Enterprises", "China Accounting Standards" or "CAS"). The financial statements of the Group for the year ended December 31, 2007 are the first set of annual financial statements prepared in accordance with CAS.

The Company is an H shares listed company which, up to December 31, 2006, used to prepare its consolidated financial statements in accordance with both the "Accounting System for Business Enterprises" issued on December 29, 2000 and the Accounting Standards for Business Enterprises and other regulations applicable that were issued before February 15, 2006 (the "old CAS") in China and the International Financial Reporting Standards ("IFRS"). According to the related regulations in CAS interpretation No.1, the comparative figures in respect of 2006 were retrospectively adjusted and restated to reflect these adjustments according to the differences between the standards under CAS and the old CAS, in addition to the retrospective adjustments required by article 5 to 19 of CAS 38 "Initial Implementation of Accounting Standards for Business Enterprises".

The main retrospective adjustments include:

• Equity investment differences arising from a business combination under common control and other credit equity investment differences of long-term equity investments under equity method were written off.

• Goodwill arising from a business combination under common control was written off.

• Recognition of the deferred tax assets and liabilities related to the temporary differences between the carrying amount of assets or liabilities and their tax bases, and the deductible loss and tax credits that can be carried forward.

• Long-term equity investments in subsidiaries are retrospectively adjusted in the company's separate financial statements as if the subsidiaries have been accounted for at cost from the initial recognition.

The reconciliation between the beginning and ending balances of the consolidated shareholders' equity and the consolidated net profit for the year ended December 31, 2006 under the old CAS and CAS is set out in Note 14.

3 STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The consolidated and the company's financial statements for the year ended December 31, 2007 truly and completely present the financial position of the Group and the Company as of December 31, 2007 and their financial performance and their cash flows for the year then ended in compliance with the Accounting Standards for Business Enterprises.

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) Accounting Period

The accounting period of the Group starts on January 1 and ends on December 31.

(2) Recording Currency

The recording currency of the Company and most of its subsidiaries is Renminbi ("RMB"). The Group's consolidated financial statements are presented in RMB.

(3) Foreign Currency Translation

(a) Foreign currency transactions

Foreign currency transactions are translated into RMB at the exchange rates prevailing at the date of the transactions.

Monetary items denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates prevailing at the balance sheet date. Exchange differences arising from these translations are recognised in the income statement. Non-monetary items denominated in foreign currencies measured at historical cost are translated into RMB at the historical exchange rates prevailing at the date of the transactions at the balance sheet date.

(b) Translation of financial statements represented in foreign currency

Assets and liabilities of each balance sheet of the foreign operations are translated into RMB at the closing rates at the balance sheet date, while the equity items are translated into RMB at the exchange rates at the date of the transactions, except for the retained earnings. Income and expenses for each income statement of the foreign operations are translated into RMB at the average exchange rates for the year. The currency translation differences resulted from the above-mentioned translations are recognised as a separate component of equity. The cash flows denominated in foreign currencies and cash flows of overseas subsidiaries are translated into RMB at the approximate exchange rates at the date of the transactions. The impact on the cash flow resulted from the foreign currency translation is presented in the cash flow statement separately.

(4) Cash and Cash Equivalents

In the cash flow statement, cash refers to all cash on hand and deposit held at call with banks. Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(5) Financial Assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held-to-maturity investments. The classification depends on the Group's intention and the ability to hold the financial assets. The Group only holds loans and receivables and available-for-sale financial assets during the report period.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including accounts receivable, notes receivable, other receivables and cash at bank and on hand.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are either designated in this category at initial recognition or not classified in any of the other categories. They are included in other current assets on the balance sheet if they are intended to be sold within 12 months of the balance sheet date.

(c) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Related transaction costs of loans and receivables and available-for-sale financial assets are recognised into the initial recognition costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or all substantial risks and rewards of ownership have been transferred to the transferee.

Available-for-sale financial assets are subsequently measured at fair value. The investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost. Loans and receivables are stated at amortised costs using the effective interest method.

Changes in the fair values of available-for-sale financial assets are recorded into equity except for impairment losses and foreign exchange gains and losses arising from the transaction of monetary financial assets denominated in foreign currencies. when the financial asset is derecognised, the cumulative changes in fair value previously recognised in equity will be recognised in the income statement. The interest of the available-for-sale debt instruments calculated using the effective interest method is recognised as investment income. The cash dividend from the available-for-sale equity instruments is recognised as investment income when the dividend is declared.

(d) Impairment of financial assets

The Group assesses the carrying amount of financial assets at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment provision shall be made.

If a financial asset carried at amortised cost is impaired, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred). If there is objective evidence that can prove the value of such financial asset has been recovered, and that it is related to events occurring subsequent to the recognition of impairment, the previously recognised impairment losses shall be reversed and the amount of the reversal will be recognised in the income statement.

When there is significant or nontemporary decline in the fair value of an available-for-sale financial asset, the cumulative losses that have been recognised in equity as a result of the decline in the fair value shall be removed from equity and recognised as impairment losses in the income statement. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if in a subsequent period the fair value increases and the increase can be objectively related to an event occurring after the impairment losses were recognised, the previously recognised impairment losses shall be reversed, and recognised in the income statement. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised in a subsequent period, if its fair value increases and the increase can be objectively related to an event occurring after the impairment losses were recognised in the income statement, the impairment losses shall be reversed and directly recognised in equity. The impairment losses for an investment in an equity instrument that do not have quoted market prices in active markets and whose fair value cannot be reliably measured shall not be reversed even if the value of such instruments have been recovered in a subsequent period.

(6) Inventories

Inventories include crude oil and other raw materials, work in progress, finished goods and turnover materials, and are presented at the lower of cost and net realisable value.

Cost of inventories is determined primarily using the weighted average method. The cost of finished goods and work in progress comprises cost of raw materials, direct labour and production overheads allocated based on normal operating capacity. Turnover materials include low cost consumables and packaging materials which are expensed off in full when utilised.

Provision for decline in the value of inventories is measured as the excess of the carrying value of the inventories over their net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost to completion and estimated selling expenses and related taxes.

The Group adopts perpetual inventory system.

(7) Long-term Equity Investments

Long-term equity investments comprise the Company's equity investments in subsidiaries, and the Group's equity investments in jointly controlled entities and associates.

(a) Subsidiaries

Subsidiaries are those entities over which the Group is able to control, i.e. has the power to govern the financial and operating policies so as to obtain benefits from the operating activities of these investees. The potential voting rights, including currently convertible company bonds and exercisable share warrants, are considered when assessing whether the Group has controls over the investees. Investments in subsidiaries are accounted for at cost in the financial statements of the Company and are consolidated after being adjusted by the equity method accounting in consolidated financial statements.

Long-term equity investments accounted for at cost are measured at the initial investment cost. The cash dividends or profit distributions declared by the investees are recognised as investment income in current period which are limited to the accumulated profits of the investee arising after the investment was made. The cash dividends or profit distributions received in excess of such amounts are recorded as a recovery of investment.

A listing of the Group's principal subsidiaries is set out in Note 6.

(b) Jointly controlled entities and associates

Jointly controlled entities are those over which the Group is able to exercise joint control together with other ventures. Associates are those in which the Group has significant influence over the financial and operating policies.

The investments in jointly controlled entities and associates are initially recognised at cost and are subsequently accounted for using the equity method accounting. The excess of the initial cost of the investment over the share of the fair value of the investee's net identifiable assets is included in the initial cost of the investment; While the excess of the share of the fair value of the investee's net identifiable assets over the cost of the investment is instead recognised in the income statement in the period in which the investment is acquired and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method accounting, the Group's share of its investees' post-acquisition profits or losses is recognised in the income statement. When the Group's share of losses of an investee equals or exceeds the carrying amount of the long-term equity investment and other long-term interests which substantively form the net investment in the investee, the Group does not recognise further losses, unless it has obligations to bear extra losses which meet the criteria of recognition for liabilities according to the related standards for contingencies. Movements in the investee's owner's equity other than profit or loss should be proportionately recognised in the Group's capital surplus, provided that the share interest of the investee remained unchanged. The share of the investee's profit distribution or cash dividends declared is accounted for as a reduction of the carrying amount of the investment upon declaration. The profits or losses arising from the intra-group transactions between the Group and its investees are eliminated to the extent of the Group's interests in the investees, on the basis of which the investment income or losses are recognised. The loss on the intra-group transaction between the Group and its investees, of which nature is asset impairment, is recognised in full amount, and the relevant unrealised loss is not allowed to be eliminated.

A listing of the Company's principal jointly controlled entities and associates is set out in Note 7(7a).

(c) Impairment losses of long-term equity investment

The carrying amount of long-term equity investment is written down to its recoverable amount when the recoverable amount is lower than the carrying amount (Note 4(14)).

(All amounts in RMB millions unless otherwise stated)

(8) Fixed Assets

Fixed assets comprise buildings, equipment and machinery, motor vehicles and other. Fixed assets purchased or constructed are initially recorded at cost. The fixed assets injected by the state-owned shareholder during the Restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

Subsequent expenditures for fixed assets are included in the cost of fixed assets only when it is probable that in future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably. The carrying amount of the replaced part is derecognised. All other subsequent expenditures are charged to the income statement during the financial period in which they are incurred.

Fixed assets are depreciated using the straight-line method based on their costs less estimated residual values over their estimated useful lives. For those fixed assets being provided for impairment loss, the related depreciation charge is determined based on the carrying amounts less impairment over their remaining useful lives.

The estimated useful lives, estimated residual value ratios and annual depreciation rates of the fixed assets are as follows:

	Estimated useful lives	Estimated residual value ratio %	Annual depreciation rate %
Buildings	8 to 40 years	5	2.4 to 11.9
Equipment and Machinery	4 to 30 years	3 to 5	3.2 to 24.3
Motor Vehicles	7 to 14 years	5	6.8 to 13.6
Other	5 to 12 years	5	7.9 to 19.0

The estimated useful lives, estimated residual values and depreciation method of the fixed assets are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its recoverable amount (Note 4(14)).

The carrying amounts of fixed assets are derecognised when the fixed assets are disposed or no future economic benefits are expected from their use or disposal. When fixed assets are sold, transferred, disposed or damaged, gains or losses on disposal are determined by comparing the proceeds with the carrying amounts of the assets, adjusted by related taxes and expenses, and are recorded in the income statement in the disposal period.

(9) Oil and Gas Properties

Oil and gas properties include the mineral interests in properties, wells and related facilities arising from oil and gas exploration and production activities.

The costs of obtaining the mineral interests in properties are capitalised when they are incurred and are initially recognised at acquisition costs. Exploration license fee, production license fee, rent and other costs for retaining the mineral interests in properties, subsequent to the acquisition of the mineral interests in properties, are charged to the income statement.

Oil and gas exploration costs include drilling exploration costs and the non-drilling exploration costs. The non-drilling exploration costs are recorded in the income statement when incurred.

Oil and gas development costs are capitalised as the respective costs of wells and related facilities for oil and gas development based on their intended use.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. 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.

Oil and gas properties are depleted using the straight-line method based on their costs less estimated residual values over their estimated useful lives except for the mineral interests in unproved properties which are not subjected to depletion. For those oil and gas properties being provided for impairment loss, the related depletion charge is determined based on the carrying amounts less impairment over their remaining useful lives. The estimated useful lives, estimated residual value ratios and annual depletion rates are as follows:

	Estimated useful lives	Estimated residual value ratio %	Annual depletion rate %
Oil and gas properties	6 to 14 years	-	7.1 to 16.7

The carrying amount of oil and gas properties other than the mineral interests in unproved properties is reduced to the recoverable amount when their recoverable amount is lower than their carrying amount. The carrying amount of the mineral interests in unproved properties is reduced to the fair value when their fair value is lower than their carrying amount (Note 4(14)).

(10) Construction in progress

Construction in progress is recognised at actual cost. The actual cost comprises construction costs, other necessary costs incurred and the borrowing costs eligible for capitalisation to prepare the asset for its intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

Oil and gas exploration costs include drilling exploration costs and the non-drilling exploration costs. The successful efforts method is used for the capitalisation of the drilling exploration costs. Drilling exploration costs included in the oil and gas exploration costs are capitalised as wells and related facilities when the wells are completed and economically proved reserves are found. Drilling exploration costs related to the wells without economically proved reserves less the net residual value are recorded in the income statement. The related drilling exploration costs for the sections of wells with economically proved reserves are capitalised as wells and related facilities, and the costs of other sections are recorded in the income statement. Drilling exploration costs are temporarily capitalised pending the determination of whether economically proved reserves can be found within one year of the completion of the wells. For wells that are still pending determination of whether economically proved reserves can be found after one year of completion, the related drilling exploration costs remain temporarily capitalised only if sufficient reserves are found in those wells and further exploration activities are required to determine whether they are economically proved reserves or not, and further exploration activities are under way or firmly planned and are about to be implemented. Otherwise the related costs are recorded in the income statement. If proved reserves are discovered in a well, for which the drilling exploration costs have been expensed previously, no adjustment should be made to the drilling exploration costs that were expensed, while the subsequent drilling exploration costs and costs for completion of the well are capitalised. The economically proved reserves are the estimated quantities of crude oil and natural gas 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.

The carrying amount of construction in progress is reduced to its recoverable amount when its recoverable amount is lower than its carrying amount (Note 4(14)).

(11) Intangible Assets

Intangible assets include land use rights and patents, and are initially recorded at actual cost. The intangible assets injected by the state-owned shareholder during the Restructuring were initially recorded at the valued amount approved by the relevant authorities managing the state-owned assets.

Land use rights obtained through payments of land use fee or acquired are initially recorded at actual cost. The land use rights obtained through the Restructuring in 1999 were initially recorded at the valued amount approved by the relevant authorities managing the state-owned assets. Land use rights are amortised using the straight-line method over 30 to 50 years. If it is impracticable to allocate the amount paid for the purchase of land use rights and buildings between the land use rights and the buildings on a reasonable basis, the entire amount is accounted for as fixed assets.

Patent and other intangible assets are initially recorded at actual cost, and amortised using the straight-line method less than 10 years generally.

The carrying amount of intangible assets is written down to its recoverable amount when the recoverable amount is lower than the carrying amount (Note 4(14)). The estimated useful lives and amortisation method of the intangible assets with finite useful life are reviewed, and adjusted if appropriate, at each financial year-end.

(12) 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.

(13) Long-term Prepaid Expenses

Long-term prepaid expenses include advance lease payments and other prepaid expenses that should be borne by current and subsequent periods and should be amortised over more than one year. Long-term prepaid expenses are amortised using the straight-line method over the expected beneficial periods and are presented at cost less accumulated amortisation.

(14) Impairment of Assets

Fixed assets, oil and gas properties except for mineral interests in unproved properties, intangible assets and long-term equity investments are tested for impairment if there is any indication that an asset may be impaired at the balance sheet date. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount if the impairment test indicates that the recoverable amount is less than its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the estimated future cash flow expected to be devived from the asset. Impairment should be assessed and recognised for each individual asset. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash flow.

The mineral interests in unproved properties are tested annually for impairment. If the cost incurred to obtain a single property is significant, the impairment test is performed and the impairment loss is determined on the basis of the single property. If the cost incurred to obtain a single property is not significant and the geological structure features or reserve layer conditions are identical or similar to those of other adjacent properties, impairment tests are performed on the basis of a group of properties that consist of several adjacent mining areas with identical or similar geological structure features or reserve layer conditions.

Once an impairment loss of these assets is recognised, it is not allowed to be reversed even if the value can be recovered in subsequent period.

(15) Borrowing Costs

Borrowing costs incurred that are directly attributable to the acquisition and construction of fixed assets, which require a substantial period of time for acquisition and construction activities to get ready for their intended use, are capitalised as part of the cost of the assets when capital expenditures and borrowing costs have already incurred and the activities of acquisition and construction necessary to prepare the assets to be ready for their intended use have commenced. The capitalisation of borrowing costs ceases when the assets are ready for their intended use. Borrowing costs incurred thereafter are expensed. Capitalisation of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

(16) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using the effective interest method. The borrowings are classified as short-term borrowings if they need to be repaid within 12 months (12 months included) of the balance sheet date, and the others are classified as long-term borrowings.

(17) Employee Compensation

Employee compensation includes wages, bonuses, allowances and subsidies, employee welfare, social security contributions, housing funds , labour union fouds, employee education funds and other relevant compensation incurred in exchange for services rendered by employees.

Employee compensation is recognised as a liability during the period which employees render services, and it will be allocated into relevant costs and expenses to whichever the employee service is attributable.

Compensation under the share appreciation right 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 the changes in liabilities recorded in the income statement.

(18) Provisions

Provisions for product guarantee, quality onerous contracts etc. are recognised when the Group has present obligations, and it is probable that an outflow of economic benefits will be required to settle the obligations, and the amounts can be reliably estimated.

Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation. Factors surrounding the contingencies such as the risks, uncertainties and the time value of money shall be taken into account as a whole in reaching the best estimate of provisions. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash flow. The increase in the discounted amount of the provision arising from the passage of time is recognised as interest expense.

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the oil and gas properties. Interest expenses from the assets retirement obligations for each period are recognised with the effective interest method during the useful lives of the related oil and gas properties.

If the conditions for the recognition of the provisions are not met, the expenditures for the decommissioning, removal and site cleaning will be expensed in the income statement when occurred.

(19) Deferred Tax Assets and Deferred Tax Liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences (temporary differences) arising between the tax bases of assets and liabilities and their carrying amounts. The deductible losses, which can be utilised against the future taxable profit in accordance with tax law, are regarded as temporary differences and a deferred tax asset is recognised accordingly. The deferred tax assets and deferred tax liabilities are not accounted for the temporary differences resulting 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 deductible loss). Deferred tax assets and deferred tax liabilities are determined using tax rates that are expected to apply to the period when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets of the Group are recognised for deductible temporary differences and deductible losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax assets and liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(20) Revenue Recognition

The amount of revenue is determined in accordance with the fair value of the contractual consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognised when specific criteria have been met for each of the Group's activities as described below:

(a) Sales of goods

Revenue from sales of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and retains neither continuing managerial involvement nor effective control over the goods sold, and it is probable that the economic benefits associated with the transaction will flow to the Group and related revenue and cost can be measured reliably.

(b) Rendering of services

The Group recognises its revenue from rendering of services under the percentage-of-completion (the "POC") method. Under the POC method, revenue is recognised based on the costs incurred to date as a percentage of the total estimated costs to be incurred.

(c) Transfer of the assets use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from operating lease is recognised using the straight-line method over the period of the lease.

(21) Leases

Leases that transfer substantially all the risks and rewards incidental to ownership of assets are classified as finance lease, and other leases are classified as operating leases.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(22) Dividend Distribution

Dividend distribution is recognised as a liability in the period in which it is approved by the shareholders.

(23) Business Combination

(a) Business combination under common control

The consideration paid and the net assets obtained by the acquirer are measured at their carrying value. The difference between the carrying value of the net assets obtained and the carrying value of the consideration is adjusted against the capital surplus. If the capital surplus is not sufficient to be offset, the remaining balance is adjusted against retained earnings.

Costs incurred directly attributable to the business combination are recorded in the income statement when incurred.

(b) Business combination not under common control

The acquisition costs paid and the identifiable net assets acquired by the acquirer are measured at their fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is less than the acquirer's interest in the fair value of the acquirer's identifiable net assets, the difference is recognised directly in the income statement.

Costs which are directly attributable to the business combination are included in the cost of combination.

(24) Basis of Preparation of Consolidated Financial Statements

The scope of consolidated financial statements includes the Company and its subsidiaries.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. All material intercompany balances, transactions and unrealised gains within the Group are eliminated upon consolidation. The portion of the shareholders' equity of the subsidiaries that is not attributable to the parent is treated as minority interest and presented separately within shareholders' equity in the consolidated balance sheet.

When the accounting policies and accounting periods of subsidiaries are not consistent with those of the Company, the Company will make necessary adjustments to the financial statements of the subsidiaries in accordance with the Company's accounting policies and accounting periods.

The financial statements of the subsidiaries acquired from the business combination not under common control are adjusted on the basis of the fair value of the identifiable net assets at the acquisition date when preparing the consolidated financial statements. The assets, liabilities, operating result and cash flow of the subsidiaries acquired from the business combination under common control are included in the consolidated financial statements from the beginning of the earliest period of the reporting period, as if the business combination occurred at that point.

(25) Segment Reporting

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group uses the business segment as the primary reporting format and the geographical segment as the secondary reporting format. The prices for inter-segment transfers or transactions are determined according to the market prices. Expenses related to the usage of the assets that are jointly used by all segments are allocated to segments basing on the proportion of the revenues of each segment.

(26) Critical Accounting Estimates and Judgments

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 critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(a) Estimation of oil and natural gas reserves

Oil and natural gas reserves are key factors in the Group's investment decision-making process. They are also an important element in testing for impairment. 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.

(b) Estimated impairment of fixed assets and oil and gas properties

Fixed assets and 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 plans. These assumptions also include those relative to the pricing regulations by the regulatory agencies in China that the pricing regulations will not restrict the profit margins of refined products to levels that will be insufficient to recover the carrying values of the related production assets. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

(c) Estimation of assets retirement obligations

Provision is recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provision 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 lives 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 lives of the oil and gas properties.

5 TAXATION

The principal taxes and related tax rates of the Group are presented as below:

Types of taxes	Tax rate	Tax basis
Value Added Tax (the "VAT")	13% or 17%	Based on taxable value added amount. Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less current period's deductible VAT input.
Resource Tax	Based on quantities	From July 1, 2005, the rate for crude oil increased from RMB 8-30 yuan per ton to RMB 14 -30 yuan per ton, the rate for natural gas increased from RMB 2-15 yuan per thousand of cubic meter to RMB 7-15 yuan per thousand of cubic meter.
Business Tax	3%	Based on income generated from transportation of crude oil and natural gas.
Consumption Tax	Based on quantities	RMB 0.2 yuan per litre for unleaded gasoline, RMB 0.28 yuan per litre for leaded gasoline, RMB 0.1 yuan per litre for diesel. From April 1, 2006, this tax was imposed on naphtha, solvent oil and lubricant at RMB 0.2 yuan per litre and fuel oil at RMB 0.1 yuan per litre, and temporarily 30% of the tax is payable.
Corporate Income Tax	33%	Based on taxable income.
Mineral Resources Compensation Fee	1%	Based on the revenue from sales of crude oil and natural gas.
Crude Oil Special Levy	20% to 40%	Base on the sales of domestic crude oil at prices higher than a specific level.
City Maintenance and Construction Tax	1%, 5% or 7%	Based on the actual paid business tax, VAT and consumption tax.

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from January 1, 2008. Under the new CIT Law, the corporate income tax rate applicable to the Group is reduced to 25% from January 1, 2008, replacing the previously applicable tax rate of 33%.

In accordance with the regulations by the State Administration of Taxation (the "SAT") Guo Shui Han [2007] No. 434 "Supplemental Notice of the SAT on Reporting Taxable Inome on a Consolidated Basis by PetroChina Company Limited", Guo Shui Han [2004] No. 1072 "Notice of the SAT on Reporting Taxable Inome on a Consolidated Basis by PetroChina Company Limited" and Guo Shui Han [2001] No. 434 "Supplemental Notice of the SAT on Reporting Taxable Inome on a Consolidated Basis by PetroChina Company Limited"), the Company and its affiliates included under this consolidated basis pay income taxes with a method of "uniform calculation, hierarchical management, on-site prepayment and centralized settlement".

In accordance with the SAT Guo Shui Fa [2002] No. 47 "Notice of the SAT on the Detailed Implementation Opinions of Fulfilling the Tax Policies related to the Great Development of the Western China", some branches of the Company got the approval for the preferential tax rate of 15% in 2002 and the preferential tax rate will be valid until 2010.

In accordance with the MOF and the SAT Cai Shui [2004] No. 153 "Notice of the MOF and the SAT on Corporate Income Tax Preferential Policies for Reviving the Northeast old Industry Base of China" and Cai Shui [2005] No. 17 "Notice of the MOF and the SAT on Basis of Asset Depreciation and Amortisation in the Northeast Old Industry Base of China", some branches and subsidiaries of the Company can shorten depreciation and amortisation periods of fixed assets and intangible assets for no more than 40% based on the remained deprecation and amortisation periods according to current regulations.

In accordance with Cai Shui [2004] No. 156 "Notice of the MOF and the SAT on the Issues related to the expanding the deduction scope of VAT in the Northeast Area of China", some branches and subsidiaries of the Company deduct the input VAT included in the purchased fixed assets, goods or taxable services for self-manufacturing of fixed assets and transportation expenses paid for fixed assets against the VAT incurred in current year. The unused input VAT for the year can be carried forward to the following years if there is no VAT incurred or the VAT incurred is not sufficient.

In accordance with Cai Shui [2002] No. 111 "Notice of the MOF and the SAT on Tax Policy related to the West-East Pipeline Project", the application tax rate for the West-East pipeline branch of the Company is 15%. The branch was exempted from corporate income tax in the first and second year from 2005, the first profit-making year, and allowed a 50% reduction from the third to fifth year.

(All amounts in RMB millions unless otherwise stated)

6 PRINCIPAL SUBSIDIARIES

Company name	Country of incorporation	Registerd capital	Principal activities	Attributable equity interest %		Attributable voting rights %	
				Direct	Indirect	Direct	Indirect
Daqing Oilfield Company Limited	PRC	47,500	Exploration, production and sale of crude oil and natural gas; production and sale of refined products	100.00	-	100.00	-
CNPC Exploration and Development Company Limited	PRC	100	Exploration and production and sale of crude oil and natural gas outside of the PRC	50.00	-	57.14	-
Daqing Yu Shu Lin Oilfield Company Limited	PRC	1,272	Exploration, production and sale of crude oil and natural gas	-	88.16	-	88.16
PetroKazakhstan Inc. (“PKZ”)	Canada	US Dollar 2,465 million	Exploration, production and sale of crude oil and natural gas outside of the PRC	-	67.00	-	67.00

Pursuant to the resolutions passed at the Board of Directors‘ meeting held on October 26, 2005, the Company offered to acquire and complete the acquisition of all of the outstanding shares from the minority shareholders of the following entities of the Company.

(All amounts in RMB millions unless otherwise stated)

Entity name	Number of outstanding shares	Purchase price per share	Number of shares acquired	Total cash consideration paid	Percentage of shareholdings after the acquisition %	
Jinzhou Petro-Chemical Company Limited ("JCPL")	150,000,000 A shares	RMB 4.25 yuan per A share	150,000,000 A shares as of June 30, 2007	RMB 638 as of December 31, 2007	100.00	JCPL was delisted from the Shenzhen Stock Exchange on January 4, 2006. In November 2007, the Liaoning Administration for Industry and Commerce approved JCPL's deregistration as an incorporated company.
Jilin Chemical Industrial Company Limited ("JCIC")	200,000,000 A shares	RMB 5.25 yuan per A share	200,000,000 A shares as of December 31, 2007	RMB 3,862 as of December 31, 2007	100.00	JCIC was delisted from the Shenzhen Stock Exchange on February 20, 2006.
	964,778,000 H shares (including American Depositary Shares) ("ADS")	Hong Kong Dollar ("HKD") 2.80 per H share	964,778,000 H shares (including ADS) as of December 31, 2007			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. In December 2007, the Jilin Administration for Industry and Commerce approved JCIC's deregistration as an incorporated company.
Liaohe Jinma Oilfield Company Limited ("LJOCL")	200,000,000 A shares	RMB 8.80 yuan per A share	200,000,000 A shares as of June 30, 2007	RMB 1,763 as of December 31, 2007	100.00	LJOCL was delisted from the Shenzhen Stock Exchange on January 4, 2006. In May 2007, the Liaoning Administration for Industry and Commerce approved LJOCL's deregistration as an incorporated company.

The excess of the cost of purchase over the carrying value of the underlying assets and liabilities of the above non-wholly owned principal subsidiaries and other non-wholly subsidiaries acquired was recorded in equity, and this amounted to RMB 109 for the year ended December 31, 2007 (2006: RMB 2,166).

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7 NOTES TO THE FINANCIAL STATEMENTS

(1) Cash at bank and on hand

	December 31, 2007	December 31, 2006
Cash on hand	149	59
Cash at bank	88,344	53,987
Other cash balances	96	24
	88,589	54,070

The Group's cash at bank and on hand include the following foreign currencies as at December 31, 2007:

	Foreign currency	Exchange rate	RMB equivalent
United States Dollar ("USD")	1,678	7.3046	12,257
Other			81
			12,338

The Group's cash at bank and on hand included the following foreign currencies as at December 31, 2006:

	Foreign currency	Exchange rate	RMB equivalent
USD	1,164	7.8087	9,089
HKD	17	1.0047	17
Other			292
			9,398

As at December 31, 2007, time deposit of USD 450 million (2006: USD 40 million) is pledged as collateral for its subsidiaries' long-term borrowings of USD 450 million (2006: USD 40 million) (Note 7(23)); and time deposit of USD 240 million (2006:USD 280 million) is pledged as collateral for its associates' borrowings.

(2) Notes Receivable

Notes receivable represent mainly bank acceptance bill received for sales of goods and products.

As at December 31, 2007, notes receivable of RMB 300 is impawned for the Group's short-term borrowings of RMB 300 (2006: Nil) (Note7 (14)). All notes receivable of the Group other than the above-mentioned notes receivable are unsecured, and all notes receivable of the Group are due within one year.

(All amounts in RMB millions unless otherwise stated)

(3) Accounts Receivable and Other Receivables

(a) Accounts receivable

	Group			
	December 31, 2006			December 31, 2007
Accounts receivable	11,745			21,298
		Addition	Reduction	
Less: Specific provision for bad debts	(3,257)	(49)	427	(2,879)
	8,488			18,419

	Company			
	December 31, 2006			December 31, 2007
Accounts receivable	3,189			4,785
		Addition	Reduction	
Less: Specific provision for bad debts	(2,606)	(433)	385	(2,654)
	583			2,131

The aging of accounts receivable and related provision for bad debts are analysed as follows:

	Group					
	December 31, 2007			December 31, 2006		
	Amount	Percentage of total balance %	Provision for bad debts	Amount	Percentage of total balance %	Provision for bad debts
Within 1 year	18,260	86	(1)	8,299	71	-
1 to 2 years	39	-	-	33	-	(3)
2 to 3 years	32	-	(1)	59	-	(36)
Over 3 years	2,967	14	(2,877)	3,354	29	(3,218)
	21,298	100	(2,879)	11,745	100	(3,257)

	Company					
	December 31, 2007			December 31, 2006		
	Amount	Percentage of total balance %	Provision for bad debts	Amount	Percentage of total balance %	Provision for bad debts
Within 1 year	2,025	42	(1)	441	14	-
1 to 2 years	22	-	-	32	1	(17)
2 to 3 years	31	1	-	37	1	(32)
Over 3 years	2,707	57	(2,653)	2,679	84	(2,557)
	4,785	100	(2,654)	3,189	100	(2,606)

(All amounts in RMB millions unless otherwise stated)

Accounts receivable from shareholders who hold 5% or more of the voting rights in the Company are as follows:

	Group	
	December 31, 2007	December 31, 2006
Receivable from CNPC and its subsidiaries	3,796	599

	Company	
	December 31, 2007	December 31, 2006
Receivable from CNPC and its subsidiaries	415	468

As of December 31, 2007, the five largest debtors of accounts receivable of the Group amounted to RMB 7,878, representing 37% of total accounts receivable; the five largest debtors of accounts receivable of the Company amounted to RMB 1,354, representing 28% of total accounts receivable.

During the years ended December 31, 2007 and 2006, the Group had no significant write off of the provision for bad debts of accounts receivable.

The balances include accounts receivable denominated in the following foreign currency:

	December 31, 2007			December 31, 2006		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
USD	685	7.3046	5,005	201	7.8087	1,570
			5,005			1,570

(b) Other receivables

	Group			
	December 31, 2006			December 31, 2007
Other receivables	17,021			19,495
		Addition	Reduction	
Less: Specific provision for bad debts	(6,506)	(41)	2,496	(4,051)
	10,515			15,444

	Company			
	December 31, 2006			December 31, 2007
Other receivables	16,863			26,266
		Addition	Reduction	
Less: Specific provision for bad debts	(3,960)	(83)	1,950	(2,093)
	12,903			24,173

(All amounts in RMB millions unless otherwise stated)

The aging analysis of other receivables and the related provision for bad debts are analysed as follows:

	Group					
	December 31, 2007			December 31, 2006		
	Amount	Percentage of total balance %	Provision for bad debts	Amount	Percentage of total balance %	Provision for bad debts
Within 1 year	12,751	65	-	9,068	53	(5)
1 to 2 years	2,316	12	(5)	391	2	(4)
2 to 3 years	111	1	(5)	103	1	(15)
Over 3 years	4,317	22	(4,041)	7,459	44	(6,482)
	19,495	100	(4,051)	17,021	100	(6,506)

	Company					
	December 31, 2007			December 31, 2006		
	Amount	Percentage of total balance %	Provision for bad debts	Amount	Percentage of total balance %	Provision for bad debts
Within 1 year	15,962	61	-	11,714	69	(5)
1 to 2 years	7,939	30	(4)	258	2	(3)
2 to 3 years	46	-	(5)	49	-	(14)
Over 3 years	2,319	9	(2,084)	4,842	29	(3,938)
	26,266	100	(2,093)	16,863	100	(3,960)

Other receivables from shareholders who hold 5% or more of the voting rights in the Company are as follows:

	Group	
	December 31, 2007	December 31, 2006
Receivable from CNPC and its subsidiaries	2,351	2,797

	Company	
	December 31, 2007	December 31, 2006
Receivable from CNPC and its subsidiaries	141	2,713

As of December 31, 2007, the five largest debtors of other receivables of the Group amounted to RMB 5,386, representing 28% of total other receivables; the five largest debtors of other receivable of the Company amounted to RMB 18,057, representing 69% of total other receivables.

During the years ended December 31, 2007 and 2006, the Group had no significant write off of the provision for bad debts of accounts receivable.

(All amounts in RMB millions unless otherwise stated)

The balances include other receivables denominated in the following foreign currencies:

	December 31, 2007			December 31, 2006		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
USD	53	7.3046	386	67	7.8087	522
Tenge	16,425	0.0607	997	390	0.0615	24
			1,383			546

(4) Advance to suppliers

	December 31, 2006	Addition	Reduction	December 31, 2007
Advance to suppliers	12,664			20,414
Less: Specific provision for bad debts	-	(30)	2	(28)
	12,664			20,386

During the years ended December 31, 2007 and 2006, advances to suppliers of the Group are mainly aged within one year.

Advances to suppliers from shareholders who hold 5% or more of the voting rights in the Company are as follows:

	December 31, 2007	December 31, 2006
Advances to suppliers from CNPC and its subsidiaries	7,984	4,619

Advances to suppliers as of December 31, 2007, mainly comprise of advance payments for materials and equipments in-transit, and are not settled.

The balances include advances to suppliers denominated in the following foreign currencies:

	December 31, 2007			December 31, 2006		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
USD	23	7.3046	171	85	7.8087	667
Tenge	13,690	0.0607	831	11,984	0.0615	737
			1,002			1,404

(All amounts in RMB millions unless otherwise stated)

(5) Inventories

	December 31, 2006			December 31, 2007
Cost				
Crude oil and other raw materials	24,143			30,308
Work in progress	5,493			6,083
Finished goods	47,263			52,791
Turnover materials	41			32
	76,940			89,214
Less:Provision for declines in the value of inventories		Addition	Reduction	
Crude oil and other raw materials	(578)	(52)	115	(515)
Work-in-progress	(2)	(2)	-	(4)
Finished goods	(319)	(99)	193	(225)
Turnover materials	(3)	-	-	(3)
	(902)	(153)	308	(747)
Net book value	76,038			88,467

As at December 31, 2007, inventories of RMB 29 are impawned as collateral for the Group's short-term borrowings of RMB 20 (Note 7(14)).

(6) Available-for-sale Financial Assets

	December 31, 2006	Addition	Reduction	December 31, 2007
Available-for-sale debenture	63	19	(65)	17
Available-for-sale equity instrument	2,539	871	(344)	3,066
	2,602	890	(409)	3,083
Less: Provision for impairment	(742)	-	189	(553)
	1,860	890	(220)	2,530

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(7) Long-term Equity Investments

	Group			
	December 31, 2006	Addition	Reduction	December 31, 2007
Associates and jointly controlled entities (a)	30,511	21,954	(29,624)	22,841
Less : Provision for impairment (b)	(150)	(33)	28	(155)
	30,361	21,921	(29,596)	22,686

	Company			
	December 31, 2006	Addition	Reduction	December 31, 2007
Subsidiaries (c)	110,136	4,981	(15,134)	99,983
Associates and jointly controlled entitis	5,636	959	(1,732)	4,863
Less: Provision for impairment	(148)	(28)	21	(155)
	115,624	5,912	(16,845)	104,691

As at December 31, 2007, the above-mentioned investments are not subject to restriction on conversion into cash or remittance of investment income.

(a) Investments in principal associates and jointly controlled entities

						As of December 31, 2007		For the year ended December 31, 2007	
	Country of incorpor-ation	Principal activities	Regis-tered capital	Equity interest %	Voting rights %	Total assets	Total liabil-ities	Revenue	Net profit
Dalian West Pacific Petrochemical Co., Ltd.	PRC	Production and sale of petroleum and petrochemical products	US Dollar 258 million	28.44	28.44	14,223	10,890	35,575	610
China Marine Bunker (PetroChina) Co., Ltd.	PRC	Oil import and export trade and transportation, sale and storage	1,000	50.00	50.00	6,254	4,012	34,060	274
PKZ (i)	Canada	Exploration, production and sale of crude oil and natural gas outside of the PRC	US Dollar 2,465 million	67.00	67.00	-	-	18,450	6,902

(All amounts in RMB millions unless otherwise stated)

Investments in associates and jointly controlled entities are listed below.

	Initial investment cost	December 31, 2006	Addition	Consolidation of PKZ	Reduction	Share of profit of investees under equity method	Cash dividend declared	Currency translation differences	Associates transferred to subsidiaries	December 31, 2007
Dalian West Pacific Petrochemical Co., Ltd.	566	802	-	-	-	174	(28)	-	-	948
China Marine Bunker (PetroChina) Co., Ltd.	740	994	-	-	(19)	137	(50)	(3)	-	1,059
PKZ (i)	21,359	21,402	-	-	(8,208)	4,624	-	(1,254)	(16,564)	-
Other (ii)		7,313	3,851	11,820	(1,280)	1,348	(1,279)	(423)	(516)	20,834
		30,511	3,851	11,820	(9,507)	6,283	(1,357)	(1,680)	(17,080)	22,841

(i) On December 28, 2006, the Group acquired a 67% equity interest in PKZ from CNPC International Limited, a subsidiary of CNPC for a consideration of RMB 21,376. Pursuant to the shareholders' agreement in relation to the acquisition of PKZ, each shareholder had a veto right relating to certain financial and operating decisions, and the Group was therefore considered to have joint control over PKZ. As such, in accordance with the Group's accounting policy, the Group accounted for its investment in PKZ, using the equity method of accounting from December 28, 2006. The revenue and profit disclosed in the table above represents the Group's share of PKZ's revenue and profit for the period from December 28, 2006 to December 31, 2006, and also from January 1, 2007 to December 11, 2007.

On December 12, 2007, through a supplementary agreement between the Group and the minority shareholder of PKZ, the Group gained control over PKZ from that date. Therefore, as of the date it acquired control over PKZ, December 12, 2007, the Group accounts for its investment in PKZ as a subsidiary.

The net assets of PKZ as at December 12, 2007 amounted to RMB 24,549. The fair value (which approximated their carrying value) of assets and liabilities of PKZ consolidated on December 12, 2007 were as follows:

Current assets	6,587
Non current assets	20,630
Current liabilities	(1,732)
Non current liabilities	(762)
	24,723

(ii) Included in "Other - Consolidation of PKZ" are the jointly controlled entities held by PKZ which was consolidated during the year.

(All amounts in RMB millions unless otherwise stated)

(b) Provision for impairment

	December 31, 2006	Addition	Reduction	December 31, 2007
Associates and jointly controlled entities				
PetroChina Shouqi Sales Company Limited	(60)	-	-	(60)
PetroChina Beiqi Sales Company Limited	(49)	-	-	(49)
Other	(41)	(33)	28	(46)
	(150)	(33)	28	(155)

(c) Subsidiaries

Principal subsidiaries

	As of December 31, 2007		For the year ended December 31, 2007	
	Total assets	Total liabilities	Revenue	Net profit
Daqing Oilfield Company Limited	142,211	28,228	203,008	61,888
CNPC Exploration and Development Company Limited	69,161	24,698	27,331	12,396

Investment in subsidiaries:

	Initial investment cost	Additional investment	December 31, 2006	Additional investment	Disposal or deduction of capital	Transferred to branch	December 31, 2007
Daqing Oilfield Company Limited	66,720	-	66,720	-	-	-	66,720
CNPC Exploration and Development Company Limited	13,924	-	13,924	-	-	-	13,924
Other			29,492	4,981	(442)	(14,692)	19,339
Total			110,136	4,981	(442)	(14,692)	99,983

(All amounts in RMB millions unless otherwise stated)

(8) Fixed Assets

	Buildings	Equipment and Machinary	Motor Vehicles	Other	Total
Cost					
On December 31, 2006	81,880	308,902	12,431	7,561	410,774
Transferred from construction in progress	8,778	25,916	-	885	35,579
Consolidation of PKZ	184	247	170	136	737
Other addition	2,928	2,296	3,237	293	8,754
Reduction	(1,480)	(2,686)	(493)	(255)	(4,914)
Currency translation differences	(50)	(124)	(9)	(20)	(203)
On December 31, 2007	92,240	334,551	15,336	8,600	450,727
Accumulated depreciation					
On December 31, 2006	(18,900)	(140,179)	(6,868)	(3,668)	(169,615)
Charge for the year	(4,891)	(19,951)	(1,248)	(604)	(26,694)
Reduction	1,322	1,330	372	101	3,125
Currency translation differences	8	26	6	14	54
On December 31, 2007	(22,461)	(158,774)	(7,738)	(4,157)	(193,130)
Provision for impairment					
On December 31, 2006	(2,138)	(7,422)	(5)	(4)	(9,569)
Addition	(136)	(157)	(3)	-	(296)
Reduction	52	18	-	1	71
On December 31, 2007	(2,222)	(7,561)	(8)	(3)	(9,794)
Net book value					
On December 31, 2007	67,557	168,216	7,590	4,440	247,803
On December 31, 2006	60,842	161,301	5,558	3,889	231,590

As at December 31, 2007, no fixed assets was pledged as collateral for short-term borrowing (Note 7(14)); As at December 31,2006, fixed assets with a net book value of approximately RMB 39 were pledged as collateral for short-term borrowing of RMB 23 (Note 7(14)).

At at December 31, 2007, the Group had no significant fixed assets which were temporarily idle.

As of December 31, 2007, the cost of fixed assets fully depreciated but still in use include: buildings of RMB 3,912, equipment and machinary of RMB 47,570, motor and vehicles of RMB 2,307 and other of RMB 2,264, and amounted to RMB 56,053 in total.

(All amounts in RMB millions unless otherwise stated)

Fixed assets under operating leases are mainly equipment and machinary as follows:

	December 31, 2006	Addition	Reduction	December 31, 2007
Fixed assets under operating leases				
Cost	563	417	(797)	183
Accumulated depreciation	(272)	(168)	375	(65)
Net book value	291	249	(422)	118

(9) Oil and Gas Properties

	December 31, 2006	Addition	Consolidation of PKZ	Reduction	Currency translation differences	December 31, 2007
Cost						
Mineral interests in unproved properties	-	2,469	-	-	-	2,469
Mineral interests in proved properties	2,801	-	-	(2,801)	-	-
Wells and related facilities	573,593	92,215	8,322	(5,807)	(920)	667,403
	576,394	94,684	8,322	(8,608)	(920)	669,872
Accumulated depletion						
Mineral interests in proved properties	(2,030)	-	-	2,030	-	-
Wells and related facilities	(300,633)	(43,876)	-	3,727	449	(340,333)
	(302,663)	(43,876)	-	5,757	449	(340,333)
Provision for impairment						
Mineral interests in unproved properties	-	-	-	-	-	-
Mineral interests in proved properties	-	-	-	-	-	-
Wells and related facilities	(3,235)	-	-	24	-	(3,211)
	(3,235)	-	-	24	-	(3,211)
Net book value						
Mineral interests in unproved properties	-	2,469	-	-	-	2,469
Mineral interests in proved properties	771	-	-	(771)	-	-
Wells and related facilities	269,725	48,339	8,322	(2,056)	(471)	323,859
	270,496	50,808	8,322	(2,827)	(471)	326,328

As at December 31, 2007, the assets retirement obligations capitalized in the cost of oil and gas properties amounted to RMB 22,499 (2006: RMB 17,410). Depletion charge for the year ended December 31, 2007 was RMB 1,767 (2006: 1,670).

(All amounts in RMB millions unless otherwise stated)

(10) Construction Materials

The Group's construction materials mainly represent the actual cost of materials purchased for construction projects.

(11) Construction in progress

Project Name	Budget	December 31, 2006 Amount	Addition Amount	Transferred to fixed assets or oil and gas properties	Other reduction (i)	Currency translation differences	December 31, 2007 Amount	December 31, 2007 Capitalised interest expense	Source of the fund	Proportion of construction compared to budget %
West-East pipeline	46,310	4,579	1,667	(3,399)	-	-	2,847	137	Self& Loan	80
Daqing oil and gas transportation facilities and systems	9,708	2,273	7,003	(5,867)	-	-	3,409	-	Self	99
Dushanzi Petrochemical 10 million tons / year of Kazakh oil	6,513	1,574	3,570	(101)	-	-	5,043	106	Self& Loan	79
Dushanzi Petrochemical 1 million tons / year ethylene	23,846	3,704	4,549	(18)	-	-	8,235	230	Self& Loan	35
Dalian Petrochemical 20 million tons / year sulphur crude oil technology transformation	10,789	2,690	3,935	(102)	-	-	6,523	127	Self& Loan	62
Ranliaoyou Technology reformation	6,600	-	3,475	-	-	-	3,475	43	Self& Loan	53
Other		50,129	148,856	(113,263)	(9,161)	(174)	76,387	1,043		
		64,949	173,055	(122,750)	(9,161)	(174)	105,919	1,686		
Less:			Addition		Reduction					
Provision for impairment		(297)	(5)		17		(285)			
		64,652					105,634			

(All amounts in RMB millions unless otherwise stated)

In 2007, the capitalised interest expense amounted to RMB 1,734 (2006: RMB 1,315). The annual interest rate used to determine the capitalised amount in 2007 is from 5.832% to 6.966% (2006: from 5.265% to 5.832%).

(i) Other reduction refers to expensing of drilling and exploration costs when it fails to discover economical proved oil and gas reserve, or not sure whether economical proved reserves are found within one year of completion and no longer meets the conditions of capitalisation.

(12) Intangible Assets

	Cost	December 31, 2006	Addition	Reduction	Amorti-sation	Currency translation differences	December 31, 2007	Accumulated amortisation
Land use rights	16,821	12,910	2,710	(213)	(467)	(3)	14,937	(1,884)
Patents	2,709	1,395	239	-	(194)	-	1,440	(1,269)
Other (i)	5,700	2,552	2,217	(2)	(553)	6	4,220	(1,480)
	25,230	16,857	5,166	(215)	(1,214)	3	20,597	(4,633)
Less: Provision for impairment								
Land use rights		(505)	(27)	199	-	-	(333)	
Patents		(179)	-	-	-	-	(179)	
Other (i)		(46)	(17)	-	-	-	(63)	
		16,127	5,122	(16)	(1,214)	3	20,022	

Research and development expenditures for the year ended December 31, 2007 amounted to RMB 5,315 (2006: RMB 4,260), which have been recognised in the income statement.

(i) Other intangible assets include non-proprietary technology and trademarks use right.

(13) Long-term Prepaid Expenses

	December 31, 2006	Addition	Amortisation	December 31, 2007
Advance lease payments (i)	8,284	2,093	(1,371)	9,006
Other	2,910	856	(744)	3,022
	11,194	2,949	(2,115)	12,028

(i) Advance lease payments are principally for use of land sub-leased from entities other than the PRC land authorities.

(All amounts in RMB millions unless otherwise stated)

(14) Short-term Borrowings

	December 31, 2007	December 31, 2006
Secured borrowings		
Guarantee - RMB	30	-
Pledge - RMB	-	23
Impawn - RMB	320	-
Unsecured borrowings		
Unsecured - USD	5,318	2,482
Unsecured - RMB	11,056	12,651
Unsecured - HKD	2,010	-
	18,734	15,156

As of December 31, 2007, the short-term guaranteed borrowings are from China Petroleum Finance Company Limited ("CP Finance"), and are guaranteed by the Company and other third parties (2006: Nil).

As of December 31, 2007, the Group has no pledged short-term borrowings. As of December 31, 2006, the short-term pledged borrowings were secured by fixed assets with a net book value of RMB 39 as collateral (Note 7(8)).

As of December 31, 2007, the short-term impawned borrowings are secured over notes receivable of RMB 300 and inventories with a net book value of RMB 29 (2006: Nil).

As of December 31, 2007, the short-term unsecured borrowings include loans from fellow CNPC subsidiary, CP Finance of RMB 20 (2006: RMB 320).

The weight average interest rate for short-term borrowings as of December 31, 2007 is 5.14% per annum (2006: 5.10 %).

(15) Notes Payable

As of December 31, 2007 and 2006, notes payable represented mainly trade accepted notes. All notes are maturing within one year.

As of December 31, 2007, there are no notes payable to shareholders who hold 5% or more of the voting rights in the Company.

(All amounts in RMB millions unless otherwise stated)

(16) Accounts Payable

Accounts payable includes amount payable to a shareholders who hold 5% or more of the voting rights in the Company, as follows:

	December 31, 2007	December 31, 2006
Payable to CNPC and its subsidiaries	29,507	24,492

As of December 31, 2007, accounts payable aged over one year amounted to RMB 7,323 (2006: RMB 6,568), and mainly comprised of payables to several major customers and were not settled.

The balances include accounts payable denominated in the following foreign currencies:

	December 31, 2007			December 31, 2006		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
USD	111	7.3046	812	20	7.8087	156
Tenge	28,171	0.0607	1,710	16,065	0.0615	988
			2,522			1,144

(17) Advances from customers

Advances from customers include amount payable to shareholders who hold 5% or more of the voting rights in the Company, as follows:

	December 31, 2007	December 31, 2006
Advance received from CNPC and its subsidiaries	924	648

The balances include advances from customers are denominated in the following foreign currencies:

	December 31, 2007			December 31, 2006		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
USD	8	7.3046	60	22	7.8087	169
Tenge	3,229	0.0607	196	-	-	-
			256			169

(All amounts in RMB millions unless otherwise stated)

(18) Employee Compensation Payable

	December 31, 2006	Addition	Reduction	December 31, 2007
Wages and salaries, bonuses, allowances and subsidies	6,768	32,583	(31,600)	7,751
Staff Welfare	2,179	3,731	(4,111)	1,799
Social security contributions	663	8,617	(8,572)	708
Including:				
Medical insurance	221	2,074	(1,922)	373
Basic pensions	285	4,764	(4,807)	242
Additional pensions	84	980	(1,046)	18
Unemployment insurance	41	446	(451)	36
Work injury insurance	19	235	(229)	25
Maternity insurance	13	118	(117)	14
Housing fund	59	2,738	(2,753)	44
Labour union funds and employee education funds	844	1,277	(1,045)	1,076
Other	855	1,691	(2,339)	207
	11,368	50,637	(50,420)	11,585

As of December 31, 2007, employee benefits payable did not contain any balance in arrears.

(19) Taxes Payable

	December 31, 2007	December 31, 2006
Corporate income tax	11,709	17,744
Prepaid VAT payable (i)	(12,133)	(5,994)
Business tax payable	255	214
Consumption tax payable	1,335	1,231
City maintenance and construction tax payable	795	971
Educational surcharge payable	407	440
Compensation on mineral resources	1,493	2,127
Resources tax payable	515	603
Crude oil special levy payable (ii)	17,001	5,962
Other	1,431	876
	22,808	24,174

(i) Prepaid VAT arose mainly because of VAT deductible due to high expenditure on bulk purchases of fixed assets, materials to build in-house fixed assets, and transportation expenses incurred transporting fixed assets, by subsidiaries and branches in the northeast region.

(ii) According to Guo Fa [2006] No. 13 "State Council's decision to impose a special levy on sale of crude oil" and Cai Qi [2006] No. 72 "Implementation of Special levy", a special levy which is payable on the portion of income realised by petroleum exploration enterprises from the sales of domestically-produced crude oil at prices above certain level will be imposed from March 26, 2006.

(All amounts in RMB millions unless otherwise stated)

(20) Other Payables

Other payables include amount payable to a shareholders who hold 5% or more of the voting rights in the Company are as follows:

	December 31, 2007	December 31, 2006
Payables to CNPC and its subsidiaries	2,625	3,206

As of December 31, 2007, other payables that aged over one year amounted to RMB 2,619 (2006: RMB 4,417), and mainly comprised of payable to several major counterparts that have not been settled.

As of December 31, 2007, other payables mainly comprised of deposits and payments made on behalf.

The balances include other payables denominated in the following foreign currencies:

	December 31, 2007			December 31, 2006		
	Foreign currency	Exchange rate	RMB equivalent	Foreign currency	Exchange rate	RMB equivalent
USD	180	7.3046	1,312	126	7.8087	981
Tenge	7,562	0.0607	459	5,350	0.0615	329
			1,771			1,310

(21) Provisions

	December 31, 2006	Addition	Reduction	December 31, 2007
Assets retirement obligations (i)	18,481	6,405	(125)	24,761
Warranties	57	-	(35)	22
Environmental compensation liabilities (ii)	20	7	(5)	22
Pending litigation	13	553	(1)	565
Other	25	82	(1)	106
	18,596	7,047	(167)	25,476

(i) Assets retirement obligations are related to oil and gas properties

(ii) Environmental compensation liabilities are recognised for the overseas subsidiaries of the Group in accordance with relevant overseas regulations.

(All amounts in RMB millions unless otherwise stated)

(22) Current Portion of Non-current Liabilities

	December 31, 2007	December 31, 2006
Long-term borrowings due within one year(a)	11,412	18,922
Debentures payable due within one year (b)	240	1,485
	11,652	20,407

(a) Long-term borrowings due within one year

	December 31, 2007		December 31, 2006	
	Original currency	RMB	Original currency	RMB
Secured borrowings				
Pledge - USD	-	-	40	313
Guarantee-USD	8	62	8	62
Unsecured borrowings				
Unsecured - RMB	-	7,552	-	13,802
Unsecured - USD	515	3,761	595	4,643
Unsecured - Other	314	37	569	102
		11,412		18,922

As of December 31, 2007, the Group has no long-term pledged borrowings due within one year. As of December 31, 2006, the above-mentioned long-term pledged borrowings due within one year were secured by time deposits of USD 40 as collateral (Note 7(1)).

As of December 31, 2007, unsecured borrowings of RMB 5,520 (2006: RMB 7,407) were from CP Finance.

The above-mentioned long-term guaranteed borrowings due within one year were guaranteed by CNPC.

(b) Debentures payable due within one year

The above mentioned debentures payable due within one year include 7-year debentures issued (at par) on March 16, 2001 and the portion of debentures issued (at par) on July 14, 2004 repayable within one year.

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(23) Long-term Borrowings

	December 31, 2007	December 31, 2006
Secured borrowings		
Pledge	3,287	313
Guarantee	498	594
Unsecured borrowings	42,932	48,416
	46,717	49,323
Less: Long-term borrowings due within one year (Note 7(22a))	(11,412)	(18,922)
	35,305	30,401

As of December 31, 2007, the long-term pledged borrowings are secured by time deposits of USD 450(Note 7(1)) (2006: USD 40) as collateral.

The above-mentioned long-term guaranteed borrowings are guaranteed by CNPC.

As of December 31, 2007, long-term unsecured borrowings of RMB 24,432 (2006: RMB 26,842) are from CP Finance.

The maturities of long-term borrowings at the date indicated are analysed as follows:

	December 31, 2007	December 31, 2006
Between one to two years	5,572	11,189
Between two to five years	17,533	7,668
After five years	12,200	11,544
	35,305	30,401

The weighted average interest rate for long-term borrowings on December 31, 2007 is 5.47% (2006: 5.24%).

(All amounts in RMB millions unless otherwise stated)

Lender	December 31, 2007	Curr-ency	Foreign currency amount	Exchange rate	Annual interest rate %	Term of contract	Terms
Industrial and Commercial Bank of China Ltd.	7,400	RMB	-	-	5.67-6.80	September 12, 2008 – May 17, 2022	Unsecured
China Development Bank	1,800	RMB	-	-	3.60-6.80	May 20, 2008 – November 20, 2010	Unsecured
CP Finance	19,932	RMB	-	-	4.46-5.76	June 10, 2008 – April 22, 2032	Unsecured
CP Finance	4,500	USD	616	7.3046	4.85-5.20	November 20, 2008 – September 21, 2020	Unsecured
China Construction Bank Corporation	2,500	RMB	-	-	6.16	April 15, 2008 – May 28, 2021	Unsecured
China Construction Bank Corporation	413	USD	57	7.3046	5.10-8.66	September 30, 2009 – June 25, 2010	Unsecured
Bank of China	20	RMB	-	-	6.57	April 22, 2010	Unsecured
Bank of China	2,547	USD	349	7.3046	0.00-7.95	December 1, 2008 – June 30, 2038	Unsecured
Bank of China	247	EUR	23	10.6669	2.00-2.30	November 10, 2019 – December 31, 2023	Unsecured
Bank of China	37	JPY	578	0.0640	2.42-4.10	September 30, 2008 – November 20, 2010	Unsecured
Bank of Communications	1,000	RMB	-	-	5.18	March 14, 2008	Unsecured
The World Bank	498	USD	68	7.3046	5.50	November 15, 2014	Guarantee
Other bank borrowings	30	RMB	-	-	6.89	October 17, 2012	Unsecured
Other bank borrowings	2,036	USD	279	7.3046	5.10-7.10	April 7, 2008 – June 28, 2010	Unsecured
Other bank borrowings	3,287	USD	450	7.3046	7.50	July 18, 2012	Pledge
Other foreign government or company borrowings	5	RMB	-	-	6.32	Not determined	Unsecured
Other foreign government or company borrowings	465	USD	64	7.3046	1.55-5.00	January 15, 2022 – Not determined	Unsecured
	46,717						

The fair value of the above-mentioned borrowings amounted to RMB 46,343. The fair value is based on discounted cash flows using an applicable discount rate which is based on the prevailing market rates as of balance sheet date of the Group's availability of financial instruments (terms and characteristics similar to the borrowings).

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Lender	December 31, 2006	Currency	Foreign currency amount	Exchange rate	Annual interest rate %	Term of contract	Terms
Industrial and Commercial Bank of China Ltd.	7,190	RMB	-	-	5.18-6.16	March 2, 2007 - May 17, 2022	Unsecured
China Development Bank	3,400	RMB	-	-	3.60-6.16	May 20, 2007 - November 20, 2010	Unsecured
CP Finance	20,912	RMB	-	-	4.46-5.18	March 14, 2007 - April 22, 2032	Unsecured
CP Finance	5,930	USD	759	7.8087	5.12-6.06	November 20, 2007 September 21,2020	Unsecured
China Construction Bank Corporation	2,800	RMB	-	-	5.51-6.16	April 15, 2007 - May 28, 2021	Unsecured
China Construction Bank Corporation	114	USD	15	7.8087	6.70-8.66	February 8, 2007 - September 30, 2009	Unsecured
Bank of China	993	USD	127	7.8087	0.00-7.86	April 15, 2007 - June 30, 2038	Unsecured
Bank of China	257	EUR	25	10.2665	2.00-2.30	November 10, 2019 - December 31, 2023	Unsecured
Bank of China	75	JPY	1,139	0.0656	2.42-5.30	April 30, 2007 - November 20, 2010	Unsecured
Bank of China	49	GBP	3	15.3232	2.85	May 15, 2007	Unsecured
Bank of Communications	1,000	RMB	-	-	5.18	March 14, 2008	Unsecured
The World Bank	594	USD	76	7.8087	4.72	November 15, 2014	Guarantee
Other bank borrowings	5,167	USD	662	7.8087	5.87-10.37	April 7, 2008 - June 28, 2010	Unsecured
Other bank borrowings	313	USD	40	7.8087	9.00	December 27, 2007	Pledge
Other foreign government or company borrowings	5	RMB	-	-	6.32	Not determined	Unsecured
Other foreign government or company borrowings	524	USD	67	7.8087	1.55	January 15, 2022 - September 1, 2022	Unsecured
	49,323						

(All amounts in RMB millions unless otherwise stated)

The fair value of the above-mentioned borrowings amounted to RMB 49,104. The fair value is based on discounted cash flows using an applicable discount rate which is based on the prevailing market rates as of balance sheet date of the Group's availability of financial instruments (terms and characteristics similar to the borrowings).

(24) Debentures Payable

Debentures' Name	Currency	Date of issue	Term of Debentures	Annual interest rate %	December 31, 2006	Addition	Reduction	December 31, 2007
98 PetroChina Enterprise debentures	RMB	September 8,1999	8 - year	4.50	1,350	-	(1,350)	-
2003 PetroChina Company Limited Corporate debentures	RMB	October 28,2003	10 - year	4.11	1,500	-	-	1,500
2006 PetroChina Company Limited Corporate debentures	RMB	October 23,2006	5 - year	3.76	2,000	-	-	2,000
Other					1,280	-	(157)	1,123
					6,130	-	(1,507)	4,623
Less: Debentures Payable due within one year					(1,485)			(240)
					4,645			4,383

The above-mentioned debentures were issued at the par value, without premium or discount.

The fair value of the debentures amounts to RMB 4,104 (2006: RMB 5,852). The fair value is based on discounted cash flows using an applicable discount rate which is based on the prevailing market rates as of the balance sheet date of the Company's availability of financial instruments (terms and characteristics similar to the borrowings).

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(25) Deferred Tax Assets and Liabilities

(a) Deferred tax assets

	December 31, 2007		December 31, 2006	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Provision for assets impairment	4,934	21,288	7,133	23,799
Asset retirement obligations	1,517	6,128	1,093	3,570
Wages and welfare	1,301	5,271	1,523	4,973
Loss that can be carried forward	95	343	2,175	6,591
Other	5,024	20,149	2,467	7,550
	12,871	53,179	14,391	46,483

(b) Deferred tax liabilities

	December 31, 2007		December 31, 2006	
	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences
Depreciation and depletion of fixed assets and oil and gas properties	11,681	45,380	12,352	37,457
Amortisation of Intangible assets	109	435	103	311
Other	93	375	25	76
	11,883	46,190	12,480	37,844

(26) Share Capital

	December 31, 2007	December 31, 2006
State-owned shares	-	157,922
H shares	21,099	21,099
A shares (i)	161,922	-
	183,021	179,021

(i) Following the issuance of the A shares, all the existing state-owned shares issued before November 5, 2007 held by CNPC have been registered with the China Securities Depository and Clearing Corporation Limited as A shares.

(All amounts in RMB millions unless otherwise stated)

The assets and liabilities injected by CNPC in 1999 had been valued by China Enterprise Appraisal Co., and the result of the valuation had been approved by the Ministry of Finance ("MOF") issuing Cai Ping Zi [1999] No. 490 "Letter regarding the appraisal report on the valuation of CNPC's assets proposed to be injected into PetroChina Company Limited". In accordance with MOF's approval Cai Guan Zi [1999] No. 335 "Reply to the query in relation to PetroChina Company Limited's(in the progress of registration) state-owned equity management", the above-mentioned net assets injected by CNPC had been exchanged for 160 billion state-owned shares of the Company with a par value of RMB 1.00 yuan per share. The excess of the value of the net assets injected over the par value of the state-owned shares had been recorded as capital surplus.

Pursuant to the approval of China Securities Regulatory Commission ("CSRC") Zheng Jian Fa Xing Zi [2000] No.1 "Reply regarding the approval of PetroChina Company Limited's issuance of foreign capital stock", on April 7, 2000, the Company issued 17,582,418,000 foreign capital stock, in which 1,758,242,000 shares were converted from the prior state-owned shares of the Company owned by CNPC.

The above-mentioned foreign capital stock represented by 13,447,897,000 H shares and 41,345,210 ADS (each representing 100 H shares), were listed on the Stock Exchange of Hong Kong Limited and the New York Stock Exchange Inc. on April 7, 2000 and April 6, 2000, respectively.

Pursuant to the approval of CSRC Zheng Jian Guo He Zi [2005] No.23 "Reply regarding the approval of PetroChina Company Limited issuance of additional foreign capital stock", the Company issued 3,196,801,818 new H shares with a par value of RMB 1.00 yuan per share on September 15, 2005. CNPC also converted 319,680,182 state-owned shares it held into H shares and sold them concurrently with PetroChina's issuance of new H shares.

Pursuant to the approval of CSRC Zheng Jian Fa Xing Zi [2007] No.349 "The Circular regarding the approval of PetroChina Company Limited's initial public offering", the Company issued 4,000,000,000 A shares with a par value of RMB 1.00 yuan per share with the price of RMB 16.70 yuan per share on October 31, 2007, and the net proceeds to the Company amounted to approximately RMB 66,243. The A shares were listed on the Shanghai Stock Exchange on November 5, 2007.

(27) Capital Surplus

	December 31, 2006	Addition	Reduction	December 31, 2007
Capital premium	21,008	62,243	-	83,251
Other capital surplus				
Capital surplus under the old CAS	40,955	-	-	40,955
Fair value gain of available-for-sale investments	-	261	-	261
Purchase of minority interests in subsidiaries (Note 6)	(2,166)	-	(109)	(2,275)
	59,797	62,504	(109)	122,192

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(28) Surplus Reserves

	December 31, 2006	Addition	Reduction	December 31, 2007
Statutory Surplus Reserves	89,888	12,768	-	102,656
Discretionary Surplus Reserves	40	-	-	40
	89,928	12,768	-	102,696

Pursuant to the Company Law of PRC, the Company's Articles of Association and the resolution of Board of Director, the Company is required to transfer 10% of its net profit to a Statutory Surplus Reserves. Appropriation to the Statutory Surplus Reserves may be ceased when the fund aggregates to 50% of the Company's registered capital. The Statutory Surplus Reserves may be used to make good previous years' losses or to increase the capital of the Company upon approval.

The Discretionary Surplus Reserves is approved by a resolution of shareholders' general meeting after BOD' s proposal. The Company may convert its Discretionary Surplus Reserves to make good previous years' losses or to increase the capital of the Company. The Company have not extracted Discretionary Surplus Reserves for the year ended December 31, 2007 (2006: Nil)

(29) Undistributed Profit

At the meeting on March 19 2008, the Board of Directors proposed final cash dividends attributable to equity holders of the Company in respect of 2007 of RMB 0.156859 yuan per share, amounting to a total of RMB 28,708, according to the issued 183,021 million shares. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the balance sheet date and have not been approved by shareholders in the Annual General Meeting.

At the meeting on August 23, 2007, the Board of Directors proposed interim dividends attributable to equity holders of the Company in respect of 2007 of RMB 0.205690 yuan per share amounting to a total of RMB 36,823 as authorised by shareholders in the Annual General Meeting at May 16, 2007.

At the meeting on March 19, 2007, the Board of Directors proposed final cash dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.154699 yuan per share, amounting to a total of RMB 27,694, according to the issued 179,021 million shares, with the approval by shareholders in the Annual General Meeting on May 16, 2007.

At the meeting on August 23, 2006, the Board of Directors proposed interim dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.202806 yuan per share amounting to a total of RMB 36,307, as authorised by shareholders in the Annual General Meeting at May 26, 2006.

(All amounts in RMB millions unless otherwise stated)

(30) Minority Interest

Minority interest attributable to minority shareholders of subsidiaries

	December 31, 2007	December 31, 2006
Jilin Chemical Industrial Company Limited	-	34
Daqing Yu Shu Lin Oilfield Company Limited	336	324
Liaohe Jinma Oilfield Company Limited	-	20
CNPC Exploration and Development Company Limited	16,773	15,885
PetroKazakhstan Inc.	8,163	-
Other	12,432	9,865
	37,704	26,128

(31) Operating Income and Cost of Sales

	Group	
	2007	2006
Income from principal operations (a)	809,116	665,703
Income from other operations (b)	25,921	23,275
	835,037	688,978

Income from principal operations from the Group's five largest customers for the year ended December 31, 2007 was RMB 112,707, representing 13% of the Group's total operating income.

	Company	
	2007	2006
Income from principal operations (a)	579,310	491,616
Income from other operations (b)	16,424	14,016
	595,734	505,632

Income from principal operations from the Company's five largest customers for the year ended December 31, 2007 was RMB 86,576, representing 15% of the Company's total operating income.

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(a) Income from and cost of principal operations

	Group			
	2007		2006	
	Income	Cost	Income	Cost
Exploration and production	455,244	179,380	410,357	138,221
Refining and marketing	662,322	620,758	534,985	505,275
Chemicals and marketing	99,864	83,699	79,153	64,580
Natural gas and pipeline	49,299	35,524	38,642	27,995
Other	871	211	1,015	1,028
Intersegment elimination	(458,484)	(457,551)	(398,449)	(397,729)
Total	809,116	462,021	665,703	339,370

	Company			
	2007		2006	
	Income	Cost	Income	Cost
Exploration and production	365,901	232,753	332,548	207,185
Refining and marketing	470,352	437,932	395,396	371,666
Chemicals and marketing	88,024	73,643	67,818	56,320
Natural gas and pipeline	44,284	33,044	34,859	25,876
Other	164	110	319	615
Intersegment elimination	(389,415)	(388,482)	(339,324)	(338,602)
Total	579,310	389,000	491,616	323,060

(b) Income from and cost of other operations

	Group			
	2007		2006	
	Income	Cost	Income	Cost
Sale of materials	10,129	10,059	8,671	8,560
Other	15,792	15,032	14,604	14,660
Total	25,921	25,091	23,275	23,220

	Company			
	2007		2006	
	Income	Cost	Income	Cost
Sale of materials	5,342	5,291	3,508	3,442
Other	11,082	10,889	10,508	11,083
Total	16,424	16,180	14,016	14,525

(All amounts in RMB millions unless otherwise stated)

(32) Tax and Levies on Operations

	2007	2006
Business tax	864	562
City maintenance and construction tax	4,665	4,546
Educational surcharge	2,265	2,170
Consumption tax	12,931	12,089
Resource tax	3,217	3,368
Crude oil special levy	44,582	28,914
Other	154	43
	68,678	51,692

(33) Finance Expenses

	2007	2006
Interest expense	3,595	3,220
Less: Interest income	(1,990)	(2,066)
Exchange losses	2,559	1,756
Less: Exchange gains	(1,693)	(1,830)
Other	398	242
	2,869	1,322

(34) Asset Impairment Loss

	2007	2006
Impairment losses for bad debts provision	(2,353)	(316)
Impairment losses for declines in the value of inventories	55	140
Impairment losses for available-for-sale financial assets	-	36
Impairment losses for fixed asset and oil and gas properties	296	2,677
Impairment losses for intangible assets	44	176
Impairment losses for construction in progress	5	201
Impairment losses for long-term equity investments	5	-
	(1,948)	2,914

(All amounts in RMB millions unless otherwise stated)

(35) Investment Income

	Group	
	2007	2006
Gains on available-for-sale financial assets	388	211
Share of profit of associates and jointly controlled entities	6,283	1,253
Gains / (losses) on disposal of long-term equity investments	320	(73)
Losses on disposal of subsidiaries	(479)	-
Other	(211)	(47)
	6,301	1,344

	Company	
	2007	2006
Gains on available-for-sale financial assets	301	76
Share of profit of associates and jointly controlled entities	673	478
Dividends declared by subsidiaries	65,205	66,029
Gains on disposal of long-term equity investments	310	7
Losses on disposal of subsidiaries	(8,870)	-
Other	(5)	(120)
	57,614	66,470

(36) Non-operating Income and Expenses

(a) Non-operating income

	2007	**2006**
Gains on disposal of fixed assets and oil and gas properties	700	240
Gains on disposal of intangible assets	4	9
Government grants	1,110	610
Other	1,284	786
	3,098	1,645

(b) Non-operating expenses

	2007	**2006**
Losses on disposal of fixed assets and oil and gas properties	1,574	1,958
Losses on disposal of intangible assets	2	4
Fines	41	146
Donation	411	338
Extraordinary losses	857	11
Other	1,346	1,723
	4,231	4,180

(All amounts in RMB millions unless otherwise stated)

(37) Taxation

	2007	2006
Income tax	48,332	50,972
Deferred tax	999	(3,929)
	49,331	47,043

The reconciliation from profit before taxation presented in the financial statements to the taxation as follows:

	2007	2006
Profit before taxation	192,825	189,790
Tax calculated at a tax rate of 33%	63,632	62,631
Prior year tax return adjustment	451	243
Effect of income taxes from international operations in excess of taxes at the PRC statutory tax rate	561	1,512
Effect of preferential tax rate	(16,490)	(13,652)
Effect of the new CIT law on deferred tax recognised	(135)	-
Tax effect of income not subject to tax	(3,037)	(1,626)
Tax effect of taxable items deductible not expensed	(2,365)	-
Tax effect of expenses not deductible for tax purposes	3,796	2,336
Tax effect of unused tax losses which had expired	2,918	-
Tax effect of temporary differences in relation to certain crude oil sales which no longer existed at year end	-	(4,401)
Taxation	49,331	47,043

The management of the Group has reassessed its tax position in the year ended December 31, 2007 by reference to the enacted new CIT Law and accordingly a net decrease in deferred tax charge for the year ended December 31, 2007 of RMB 135 was recorded.

(All amounts in RMB millions unless otherwise stated)

(38) Earnings Per Share

Basic and diluted earnings per share

Basic and diluted earnings per share for the year ended December 31, 2007 have been computed by dividing profit for the year attributable to equity holders of the Company by the weighted average number of 179,700 million shares issued and outstanding for the year.

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.

There are no potential dilutive ordinary shares, and the diluted earnings per share are equal to the basic earnings per share.

(39) Notes to Consolidated Cash Flow statements

(a) Reconciliation from the net profit to the cash flow operating activities

	2007	2006
Net profit	143,494	142,747
Add:		
Assets impairment losses	(1,948)	2,914
Depreciation and depletion of fixed assets and oil and gas properties	70,570	64,441
Amortisation of intangible assets	1,214	939
Amortisation of long-term prepaid expenses	2,115	1,715
Losses on disposal of fixed assets, oil and gas properties, intangible assets and other long-term assets	10,034	11,207
Finance expenses	1,605	1,154
Investment income	(6,301)	(1,344)
Decrease/(increase) in deferred tax assets	1,596	(3,876)
Decrease in deferred tax liabilities	(597)	(53)
Increase in inventories	(12,042)	(13,445)
Increase in operating receivables	(16,254)	(3,154)
Increase in operating payables	17,333	2,197
Net cash from operating activities	210,819	205,442

(All amounts in RMB millions unless otherwise stated)

(b) Net increase/(decrease) in cash and cash equivalents

	2007	2006
Cash at end of the year	65,494	48,559
Less: Cash at beginning of the year	(48,559)	(80,905)
Add: Cash equivalents at end of the year	-	-
Less: Cash equivalents at beginning of the year	-	-
Net increase/(decrease) in cash and cash equivalents	16,935	(32,346)

(c) Cash and cash equivalents

	December 31,2007	December 31, 2006
Cash at bank and on hand	88,589	54,070
Less: Time deposits with maturities over 3 months	(23,095)	(5,511)
Cash and cash equivalents at the end of the year	65,494	48,559

(d) Cash paid relating to other operating activities

In the cash flow statements, cash paid relating to other operating activities comprises:

	2007	2006
Transportation expenses	20,540	17,872
Technology development expenses	5,315	4,260
Travelling expenses	1,462	1,169
Office expenses	1,265	1,117
Other	28,943	29,049
	57,525	53,467

(All amounts in RMB millions unless otherwise stated)

8 SEGMENT REPORTING

(1) Principal Reporting Format – Business Segments

(a) Segment information as at and for the year ended December 31, 2007 is as follows:

	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
Revenue (including Intersegment revenue)	468,175	670,844	102,718	50,066	1,718	1,293,521
Less: Intersegment revenue	(376,451)	(63,766)	(11,009)	(6,610)	(648)	(458,484)
Revenue from external customers	91,724	607,078	91,709	43,456	1,070	835,037
Segment expenses(i)	(255,406)	(327,899)	(40,285)	(14,574)	(8,295)	(646,459)
Segment result	197,888	(21,568)	6,714	12,142	(6,598)	188,578
Unallocated expenses						5,380
Operating profit						193,958
Segment assets	489,971	279,726	95,969	80,430	819,240	1,765,336
Deferred tax assets						12,871
Elimination of intersegment balances						(784,115)
Total assets						994,092
Segment liabilities	227,508	146,265	33,639	40,072	188,774	636,258
Deferred tax liabilities						11,883
Other						22,808
Elimination of intersegment balances						(391,928)
Total liabilities						279,021
Depreciation, depletion and amortisation	50,219	11,133	5,935	5,929	683	73,899
Assets impairment losses	(1,695)	66	(326)	8	(1)	(1,948)
Capital expenditure						
-Tangible assets	134,256	26,546	8,165	11,003	1,613	181,583
-Intangible assets	424	3,447	298	162	248	4,579

(All amounts in RMB millions unless otherwise stated)

(b) **Segment information as at and for the year ended December 31, 2006 is as follows:**

	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
Revenue (including intersegment revenue)	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)
Revenue from external customers	81,721	498,493	74,808	33,300	656	688,978
Segment expenses (i)	(200,114)	(240,941)	(33,237)	(11,818)	(7,651)	(493,761)
Segment result	213,501	(26,789)	6,063	9,031	(6,589)	195,217
Unallocated expenses						(2,892)
Operating profit						192,325
Segment assets	438,398	252,941	81,451	75,611	638,532	1,486,933
Deferred tax assets						14,391
Elimination of intersegment balances						(686,180)
Total assets						815,144
Segment liabilities	201,418	99,178	27,082	43,616	166,950	538,244
Deferred tax liabilities						12,480
Other						24,174
Elimination of intersegment balances						(327,349)
Total liabilities						247,549
Depreciation, depletion and amortisation	45,766	9,963	5,550	5,246	570	67,095
Assets impairment losses	41	1,915	947	-	11	2,914
Capital expenditure						
- Tangible assets	105,192	19,206	10,681	11,309	2,358	148,746
- Intangible assets	277	3,052	564	18	182	4,093

(i) Segment expenses include operating costs, tax and levies on operations, and selling, general and administrative expenses.

(2) Secondary Reporting Format——Geographical Segments

Revenue from external customers	2007	2006
PRC	807,706	665,267
Other (Exploration and Production)	27,331	23,711
	835,037	688,978

Total assets	December 31, 2007	December 31, 2006
PRC	924,931	765,373
Other (Exploration and Production)	69,161	49,771
	994,092	815,144

9 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Parent Company and Subsidiaries

Details about subsidiaries and related information are disclosed in Note 6.

(a) Parent company

	Place of incorporation	Principal activities
China National Petroleum Corporation	PRC	Exploration, development, production, transportation, sale of petroleum products, cooperation

(b) Equity interest and voting rights of parent company

	December 31, 2007		December 31, 2006	
	Equity interest %	Voting rights %	Equity interest %	Voting rights%
China National Petroleum Corporation	86.29	86.29	88.21	88.21

(2) Nature of Related Parties that are not controlled by the Company

Names of related parties	Relationship with the Company
Dalian West Pacific Petrochemical Co., Ltd.	Associate
China Marine Bunker (Petrochina) Co., Ltd.	Jointly controlled entity
Dagang Oilfield (Company) Company Limited	Fellow subsidiary of CNPC
CNPC Oriental Geophysical Exploration Company Limited	Fellow subsidiary of CNPC
China Petroleum Logging Company Limited	Fellow subsidiary of CNPC
Daqing Petroleum Administrative Bureau	Fellow subsidiary of CNPC
Liaohe Petroleum Exploration Bureau	Fellow subsidiary of CNPC
China Petroleum Pipeline Bureau	Fellow subsidiary of CNPC
Daqing Petrochemical Factory	Fellow subsidiary of CNPC
China Petroleum Material Equipment Company	Fellow subsidiary of CNPC
China Petroleum Finance Company Limited	Fellow subsidiary of CNPC
China National Oil and Gas Exploration and Development Corporation	Fellow subsidiary of CNPC
China National United Oil Corporation	Fellow subsidiary of CNPC

(All amounts in RMB millions unless otherwise stated)

(3) Summary of Significant Related Party transactions

Related party transactions with CNPC and its subsidiaries:

	Note	2007	2006
Sales of goods and services rendered to CNPC and its subsidiaries	(1)	31,325	27,714
Purchase of services from CNPC and its subsidiaries:			
Fees paid for construction and technical services :	(2)		
- Exploration and development services	(2a)	60,194	50,485
- Other construction and technical services	(2b)	37,063	32,256
Fees for production services	(3)	38,395	32,730
Social services charges	(4)	2,229	2,301
Ancillary services charges	(5)	2,635	2,458
Commission expenses and other charges	(6)	1,178	1,241
Interest income received from related companies	(7)	159	81
Interest expense paid to CP Finance	(8)	1,388	1,305
Rental paid to CNPC Company	(9)	2,292	2,276
Purchases of assets from CNPC and its subsidiaries	(10)	2,395	1,795

Note:

(1) Sales of goods and services represent sales of crude oil, petroleum products and chemicals at market prices.

(2) 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 not more than 15%, including exploration and development services and oilfield construction services.

(2a) Direct costs for exploration and development services comprise geophysical survey, drilling, well cementing, logging and well testing.

(2b) 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..

(3) 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.

(4) These represent expenditures for social welfare and support services based on the number of employees, total income or total assets which are charged at cost.

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

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

(7) The bank deposits in CP Finance as of December 31, 2007 were RMB 8,393 (2006: RMB 8,937). Interest income is calculated according to the prevailing interest rates.

(All amounts in RMB millions unless otherwise stated)

(8) The loans from CP Finance including short-term borrowings, long-term borrowings due within one year and long-term borrowings as of December 31, 2007 were RMB 24,482 (2006: RMB 27,162).

(9) Rental was paid for the operating lease of land and buildings at the prices prescribed in the Building and Land Use Rights leasing contract with CNPC.

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

(11) Besides the investment in CP Finance RMB 377 as of December 31, 2007 (2006: RMB 377), the Group did not have any individual investment in CNPC and its subsidiaries greater than RMB 100. The Group's equity interest in CP Finance as of December 31, 2007 was 9.50% (2006: 9.50%). CP Finance's operating period started in 1995, without limited date for ending.

Related party transactions with associates and jointly controlled entities:

	2007	2006
(a) Sales of goods		
- Crude oil	2,374	5,023
- Refined products	18,628	19,779
- Chemical products	753	90
(b) Purchases of goods	29,239	9,868
(c) Purchases of services	136	126
(d) Purchases of assets	-	2

(4) Commissioned loans

The Company commissioned CP Finance to provide loans to several subsidiaries and associates, charging interest in accordance with the prevailing interest rates. Loans to subsidiaries have been eliminated in the consolidated financial statements. As of December 31, 2007, the eliminated commissioned loans totalled RMB 16,833, including short-term loans of RMB 8,206, loans due within one year of RMB 807 and long-term loans of RMB 7,820.

(5) Guarantees

The Group provided guarantees of loans for associates, see Note 10(1).

CNPC provided guarantees of loans for the Group, see Note 7(22) and 7(23).

(All amounts in RMB millions unless otherwise stated)

(6) Receivables and payables with related parties

(a) Accounts receivable / Other receivables / Advances to suppliers

	December 31, 2007	December 31, 2006
CNPC and its subsidiaries		
Accounts receivable	3,796	599
Other receivables	2,351	2,797
Advanes to suppliers	7,984	4,619
Associates and jointly controlled entities		
Accounts receivable	296	82
Other receivables	2,300	4,063
Advanes to suppliers	112	244

As of December 31, 2007, the receivables from related parties represented 28% (2006: 30%) of total receivables, and bad debt provision amounted to RMB 18 (2006: RMB 453).

(b) Accounts payable / Other payables / Advances from customers

	December 31, 2007	December 31, 2006
CNPC and its subsidiaries		
Accounts payables	29,507	24,492
Other payables	2,625	3,206
Advances from customers	924	648
Associates and jointly controlled entities		
Accounts payables	35	914
Other payables	3	401
Advances from customers	65	125

As of December 31, 2007, the payables to related parties represented 25% (2006: 28%) of total payables.

(7) Summary of transactions with subsidiaries

Significant related party transactions with subsidiaries:

	2007	2006
(a) Sales of goods	5,757	5,429
(b) Purchase of goods	223,381	196,445

Receivables and payables with subsidiaries:

	December 31, 2007	December 31, 2006
Other receivables	12,997	7,890
Other payables	33,227	30,428

(8) Key management personnel compensation

	2007	2006
	RMB'000	RMB'000
Key management personnel compensation (i)	10,618	8,155

(i) Key management personnel compensation do not include deferred payments made to directors and other key management in accordance with the relevant PRC government regulations, in respect of 2004 to 2006 in the amount of RMB 5,143 thousand.

(All amounts in RMB millions unless otherwise stated)

10 CONTINGENT LIABILITIES

(1) Bank and other guarantees

At December 31, 2007, the Group had contingent liabilities in respect of guarantees made to CP Finance, a subsidiary of CNPC, from which it is anticipated that no material liabilities will arise.

	December 31, 2007	December 31, 2006
Guarantee of borrowings of associates from CP Finance	77	162
Guarantee of borrowings of third party from a state-controlled bank	-	41
	77	203

(2) 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 be reasonably 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 consolidated financial statements that will have a material adverse effect on the financial position of the Group.

(3) 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.

(4) Leasing of roads, land and buildings

According to the Restructuring Agreement entered into between the Company and CNPC in 2000:

- CNPC will use its best endeavors 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, 2007, CNPC had obtained formal land use right certificates in relation to 27,554 out of the above-mentioned 28,649 parcels of land and 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 management 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 and the financial position of the Group.

(5) 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 will not have a material adverse effect on the financial position of the Group.

(All amounts in RMB millions unless otherwise stated)

11 COMMITMENTS

(1) Operating lease commitments

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to fifty years and usually do not contain renewal options. Future minimum lease payments as of December 31, 2007 and 2006 under non-cancellable operating leases are as follows:

	December 31, 2007	December 31, 2006
Within one year	3,394	3,099
Between one to two years	3,077	2,749
Between two to three years	2,927	2,714
Thereafter	84,997	86,218
	94,395	94,780

Operating lease expenses for the year ended December 31, 2007 was RMB 6,976 (2006: RMB 5,378).

(2) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet recognised in the financial statements are as follows:

	December 31, 2007	December 31, 2006
Oil and gas properties	26	273
Buildings and equipment and machinery	11,345	8,658
Other	250	262
	11,621	9,193

(3) Exploration and production licenses

The Group is obligated to make annual payments with respect to its exploration and production licenses to the Ministry of Land and Resources. Payments incurred were RMB 660 for the year ended December 31, 2007 (2006: RMB 662).

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

	December 31, 2007
First year	906
Second year	906
Third year	906
Fourth year	906
Fifth year	906

12. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

(1) Foreign exchange rate risk

The Group conducts its business primarily in RMB, but maintains a portion of its assets in other currencies to meet its needs for normal business operations. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group's results of operations or financial position arising from future changes in exchange rates. The Group did not enter into material hedge contracts during any of the years presented to hedge against its foreign exchange rate risk.

(2) Cash flow and fair value interest rate risk

The Group is exposed to the risk arising from changes in interest rates. A detailed analysis of the Group's borrowings, together with their respective interest rates and maturity dates, are included in Note 23.

(3) Price risk

The Group is engaged in a wide range of petroleum-related activities. Prices of crude oil and petroleum products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil or petroleum products and therefore the Group is exposed to general price fluctuations of crude oil and petroleum products.

(4) Credit risk

Credit risk arises primarily from cash at bank and on hand, accounts receivable, other receivables and notes receivable. As the majority of cash at bank and on hand are placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash at bank and on hand, accounts receivable, other receivables and notes receivable included in the consolidated balance sheet represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(5) Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at December 31, 2007 and 2006 are disclosed in the respective accounting policies.

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 at bank and on hands, accounts receivable, other receivables, accounts payable, other payables and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 23.

13 OTHER SIGNIFICANT MATTERS

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 management personnel comprising 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.

As at December 31, 2007, none of the key management holders of the share appreciation rights had exercised the rights. The difference between the liability for the units calculated using the exercise price and the market price was included in employee compensation. The expense for the year ended December 31, 2007 amounted to RMB 233 (2006: RMB 537), and the liability as at December 31, 2007 amounted to RMB 1,400 (2006: RMB 1,167).

(All amounts in RMB millions unless otherwise stated)

14 FIRST TIME ADOPTION OF CAS

The reconciliation between the beginning and ending balances of the consolidated shareholders' equity and the consolidated net profit for the year ended December 31, 2006 under the old CAS and CAS is as follows:

	Consolidated shareholders' equity as of January 1, 2006	Consolidated net profit for the year ended December 31, 2006	Consolidated shareholders' equity as of December 31, 2006
Amounts presented in accordance with the old CAS	491,935	133,555	557,197
Difference in long-term equity investments	199	30	229
Including:			
Credit difference derived from other long-term equity investments accounted for using the equity method	97	(27)	70
Debit difference derived from other long-term equity investments accounted for using the equity method	102	57	159
Adjustment due to change in net identifiable assets of investees	12	25	37
Excess of cost less fair value derived from business combination under common control	(6,946)	695	(6,251)
Negative goodwill derived from business combination under common control	494	(73)	421
Revaluation derived from business combination under common control	(6,297)	156	(6,141)
Purchase of subsidiaries' minority interest	(1,339)	315	(3,648)
Assets retirement obligation expense due to effective interest rate method	(326)	(796)	(1,122)
Depreciation of oil and gas properties related to assets retirement obligation	(367)	(1,670)	(2,037)
Assets retirement obligation that is settled	1	96	97
Retrospective adjustments made to business combination under common control	1,409	-	1,409
Adjustments made to debt forgiven and donations received	-	509	-
Reversal of reversed impairment losses on prior years' long-term assets	(230)	(4)	(234)
Unrecognised losses on investment	-	(538)	-
Deferred taxation	(2,018)	3,929	1,911
Including:			
Deferred tax assets	10,515	3,876	14,391
Deferred tax liabilities	(12,533)	53	(12,480)
Foreign currency translation differences	(289)	-	(401)
Minority interest	23,996	6,518	26,128
Amounts presented in accordance with the CAS	500,234	142,747	567,595

(All amounts in RMB millions unless otherwise stated)

15. CONSOLIDATED NET PROFIT AFTER DEDUCTING NON-RECURRING ITEMS

	2007	2006
Consolidated net profit	143,494	142,747
Add:		
Net loss on disposal of non-current assets	753	1,783
Net non-operating expenses	1,371	1,432
Less:		
Government grant	(388)	(610)
Tax impact on non-recurring items	(443)	(562)
Consolidated net profit after deducting non-recurring items	144,787	144,790

PETROCHINA COMPANY LIMITED
MANAGEMENT SUPPLEMENTARY INFORMATION
(All amounts in RMB millions unless otherwise stated)

SIGNIFICANT DIFFERENCES BETWEEN IFRS AND CAS

The financial statements of the Group prepared in accordance with CAS differ in certain material aspects from the those in accordance with IFRS. A statement of reconciliation of such differences is set out below:

	Notes	2007	2006
Consolidated profit for the year under IFRS		155,229	149,397
Adjustments:			
Depletion of oil and gas properties	(1)	(7,463)	(9,173)
Amortisation of revaluation for assets other than fixed assets and oil and gas properties in 1999	(2)	(75)	(81)
Disposal of revaluation for assets other than fixed assets and oil and gas properties in 1999	(2)	(382)	-
Depreciation and depletion of revaluation for fixed assets and oil and gas properties in 2003	(3)	(162)	(111)
Reversal of reversed impairment for non-current assets	(4)	-	(4)
Disposal difference due to the reversal of reversed impairment for non-current assets	(4)	142	-
Reversal of safety funds accrued under CAS which do not meet the liability definition under IFRS	(5)	(3,559)	-
Other		(57)	(14)
Deferred taxation	(6)	(179)	2,733
Consolidated profit for the year under CAS		143,494	142,747

	Notes	December 31,2007	December 31,2006
Consolidated shareholders' equity under IFRS		776,347	617,591
Adjustments:			
Depletion of oil and gas properties	(1)	(79,662)	(72,199)
Revaluation and amortisation and disposal of revaluation for assets other than fixed assets and oil and gas properties in 1999	(2)	409	866
Revaluation and depreciation and depletion of revaluation for fixed assets and oil and gas properties in 2003	(3)	337	499
Reversal of reversed impairment for non-current assets and the dispoal difference due to that	(4)	(92)	(234)
Reversal of safety funds accrued under CAS which do not meet the liability definition under IFRS	(5)	(3,559)	-
Currency translation differences		(390)	(787)
Other		525	524
Deferred taxation	(6)	21,156	21,335
Consolidated shareholders' equity under CAS		715,071	567,595

(1) Depletion for oil and gas properties is provided using the unit of production method under IFRS, while the straight-line method is used under CAS.

(2) During the Restructuring in 1999, valuation was carried out on Jun 30, 1999 for assets and liabilities CNPC invested. Valuation results from China Enterprise Appraisals are all recognised in financial statements under CAS. However, in the financial statements under IFRS, revaluation model is used in subsequent measurement by the Group only for fixed assets and oil and gas properties. Consequently, valuation results other than fixed assets and oil and gas properties are not recognised in the financial statements under IFRS.

(3) As revaluation model is used in subsequent measurement for fixed assets and oil and gas properties by the Group under IFRS, revaluation should be carried out by independent appraisers regularly. In order to meet the requirement of IFRS, on 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 result of revaluation is recognised in the financial statements under IFRS. However, fixed assets and oil and gas properties are measured by cost model under CAS. Consequently, these revaluation results are not recognised in the financial statements under CAS.

(4) Under CAS, once recognised, the impairment loss for long-term assets, such as fixed assets, oil and gas properties, intangible assets and long-term equity investment, can not be reversed in subsequent accounting periods. However, under IFRS, once changes have been indicated for various factors based on which impairment for long term assets was provided and make the recoverable amount higher than the carrying amount, the impairment loss recognised previously shall be reversed.

(5) In accordance with the "Temporary regulation for safety expense financial management of high risk industry" from MOF of PRC, this safety fund has been accrued for the Group's oil and gas exploration, refinery and chemical production activities within PRC from Jan 1, 2007. This safety fund has been recognised into the Group's income statement. The accrued safety fund will be used for improving the safety conditions of production. As the Group did not have specific utilisation plan for this accrued safety fund as at December 31, 2007, it was reversed under IFRS.

(6) The consequences of (1)-(5) and other differences between IFRS and CAS on deferred taxation.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PETROCHINA COMPANY LIMITED

(established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of PetroChina Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 174 to 239, which comprise the consolidated and Company balance sheets as at December 31, 2007, and the consolidated profit and loss account, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as at December 31, 2007 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, March 19, 2008

PETROCHINA COMPANY LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2007
(Amounts in millions)

	Notes	2007	2006
		RMB	RMB
TURNOVER	6	835,037	688,978
OPERATING EXPENSES			
Purchases, services and other		(370,740)	(271,123)
Employee compensation costs	8	(50,616)	(39,161)
Exploration expenses, including exploratory dry holes		(20,648)	(18,822)
Depreciation, depletion and amortisation		(66,625)	(61,388)
Selling, general and administrative expenses		(51,576)	(43,235)
Taxes other than income taxes	9	(73,712)	(56,666)
Other expense, net		(1,265)	(607)
TOTAL OPERATING EXPENSES		(635,182)	(491,002)
PROFIT FROM OPERATIONS		199,855	197,976
FINANCE COSTS			
Exchange gain		1,693	1,830
Exchange loss		(2,559)	(1,756)
Interest income		1,990	2,066
Interest expense	10	(3,595)	(3,220)
TOTAL NET FINANCE COSTS		(2,471)	(1,080)
SHARE OF PROFIT OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES	17	6,997	2,277
PROFIT BEFORE TAXATION	7	204,381	199,173
TAXATION	12	(49,152)	(49,776)
PROFIT FOR THE YEAR		(155,229)	149,397
ATTRIBUTABLE TO:			
Equity holders of the Company		145,625	142,224
Minority interest		9,604	7,173
		155,229	149,397
BASIC AND DILUTED EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE YEAR (RMB yuan)	14	0.81	0.79
DIVIDENDS ATTRIBUTABLE TO EUITY HOLDERS OF THE COMPANY	15	64,517	68,589

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

PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET

As of December 31, 2007
(Amounts in millions)

	Notes	2007 RMB	2006 RMB
NON CURRENT ASSETS			
Property, plant and equipment	16	762,882	645,337
Investments in associates and jointly controlled entities	17	26,535	32,956
Available-for-sale financial assets	18	2,581	2,054
Advance operating lease payments	20	23,417	20,468
Intangible and other assets	21	8,488	6,627
Time deposits with maturities over one year		5,053	2,499
TOTAL NON CURRENT ASSETS		828,956	709,941
CURRENT ASSETS			
Inventories	22	88,467	76,038
Accounts receivable	23	18,419	8,488
Prepaid expenses and other current assets	24	36,018	23,281
Notes receivable	25	4,735	2,844
Time deposits with maturities over three months but within one year		18,042	3,012
Cash and cash equivalents	26	65,494	48,559
TOTAL CURRENT ASSETS		231,175	162,222
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	27	144,353	120,182
Income tax payable		11,709	17,744
Other taxes payable		11,099	6,190
Short-term borrowings	28	30,934	35,763
TOTAL CURRENT LIABILITIES		198,095	179,879
NET CURRENT ASSETS / (LIABILITIES)		33,080	(17,657)
TOTAL ASSETS LESS CURRENT LIABILITIES		862,036	692,284
EQUITY			
Equity attributable to equity holders of the Company:			
Share capital	29	183,021	179,021
Retained earnings		332,432	264,092
Reserves	30	217,952	143,564
		733,405	586,677
Minority interest		42,942	30,914
TOTAL EQUITY		776,347	617,591
NON CURRENT LIABILITIES			
Long-term borrowings	28	39,688	35,634
Asset retirement obligations	32	24,761	18,481
Deferred taxation	31	20,205	19,583
Other long-term obligations		1,035	995
TOTAL NON CURRENT LIABILITIES		85,689	74,693
TOTAL EQUITY AND NON CURRENT LIABILITIES		862,036	692,284

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

Chairman and President	Director	Chief Financial Officer
Jiang Jiemin	Zhou Jiping	Zhou Mingchun

PETROCHINA COMPANY LIMITED
BALANCE SHEET

As of December 31, 2007
(Amounts in millions)

	Notes	2007 RMB	2006 RMB
NON CURRENT ASSETS			
Property, plant and equipment	16	560,672	466,707
Investments in associates and jointly controlled entities	17	3,309	3,458
Available-for-sale financial assets	18	1,506	1,011
Subsidiaries	19	106,816	111,091
Advance operating lease payments	20	18,998	15,776
Intangible and other assets	21	7,188	5,620
TOTAL NON CURRENT ASSETS		698,489	603,663
CURRENT ASSETS			
Inventories	22	70,284	60,270
Accounts receivable	23	2,131	1,574
Prepaid expenses and other current assets	24	40,514	22,052
Notes receivable	25	3,988	2,097
Time deposits with maturities over three months but within one year		18,000	3,000
Cash and cash equivalents	26	60,332	45,029
TOTAL CURRENT ASSETS		195,249	134,022
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	27	131,979	120,000
Income tax payable		8,542	15,568
Other taxes payable		5,251	3,296
Short-term borrowings	28	26,927	27,676
TOTAL CURRENT LIABILITIES		172,699	166,540
NET CURRENT ASSETS/(LIABILITIES)		22,550	(32,518)
TOTAL ASSETS LESS CURRENT LIABILITIES		721,039	571,145
EQUITY			
Equity attributable to equity holders of the Company:			
Share capital	29	183,021	179,021
Retained earnings		265,806	205,379
Reserves	30	215,561	140,407
TOTAL EQUITY		664,388	524,807
NON CURRENT LIABILITIES			
Long-term borrowings	28	32,544	27,665
Asset retirement obligations	32	15,307	11,269
Deferred taxation	31	7,849	6,480
Other long-term obligations		951	924
TOTAL NON CURRENT LIABILITIES		56,651	46,338
TOTAL EQUITY AND NON CURRENT LIABILITIES		721,039	571,145

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

Chairman and President Jiang Jiemin	Director Zhou Jiping	Chief Financial Officer Zhou Mingchun

PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended December 31, 2007
(Amounts in millions)

	Notes	2007 RMB	2006 RMB
CASH FLOWS FROM OPERATING ACTIVITIES	33	203,748	198,102
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(172,511)	(130,409)
Acquisition of investments in associates and jointly controlled entities		(1,903)	(1,173)
Acquisition of available-for-sale financial assets		(324)	(62)
Consolidation/(acquisition) of PetroKazakhstan Inc.	17	1,542	(21,376)
Net proceeds from investments in collateralised loans with maturities not greater than three months		-	235
Acquisition of intangible assets		(2,521)	(1,358)
Acquisition of other non-current assets		(857)	(1,706)
Purchase of minority interest in listed subsidiaries	19	(149)	(4,095)
Other purchase of minority interest		(29)	(640)
Repayment of capital by associates and jointly controlled entities		6,618	99
Proceeds from disposal of property, plant and equipment		1,014	346
Proceeds from disposal of investments in associates and jointly controlled entities		1,033	69
Proceeds from disposal of available-for-sale financial assets		276	4
Proceeds from disposal of intangible and other non-current assets		-	2
Dividends received		1,463	2,099
Increase in time deposits with maturities over three months		(17,857)	(486)
NET CASH USED FOR INVESTING ACTIVITIES		(184,205)	(158,451)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of short-term borrowings		(33,027)	(28,349)
Repayments of long-term borrowings		(24,071)	(17,587)
Dividends paid to minority interest		(6,150)	(3,033)
Dividends paid to equity holders of the Company	15	(64,517)	(68,589)
Issuance of A shares	29	66,243	-
Increase in short-term borrowings		36,842	30,183
Increase in long-term borrowings		20,650	14,195
Capital contribution from minority interest		1,349	1,492
Change in other long-term obligations		33	(51)
NET CASH USED FOR FINANCING ACTIVITIES		(2,648)	(71,739)
TRANSLATION OF FOREIGN CURRENCY		40	(258)
Increase/ (Decrease) in cash and cash equivalents		16,935	(32,346)
Cash and cash equivalents at beginning of the year	26	48,559	80,905
Cash and cash equivalents at end of the year	26	65,494	48,559

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, 2007
(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, 2006	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 15)	-	(32,282)	-	(32,282)	-	(32,282)
Interim dividends for 2006 (Note 15)	-	(36,307)	-	(36,307)	-	(36,307)
Dividends to minority interest	-	-	-	-	(3,000)	(3,000)
Purchase of minority interest in subsidiaries (Note 19)	-	-	(2,156)	(2,156)	(2,579)	(4,735)
Capital contribution from minority interest	-	-	-	-	1,492	1,492
Other	-	-	-	-	(246)	(246)
Balance at December 31, 2006	179,021	264,092	143,564	586,677	30,914	617,591
Currency translation differences	-	-	(771)	(771)	(798)	(1,569)
Net loss recognised directly in equity	-	-	(771)	(771)	(798)	(1,569)
Profit for the year ended December 31, 2007	-	145,625	-	145,625	9,604	155,229
Total recognised income/(loss) for 2007	-	145,625	(771)	144,854	8,806	153,660
Transfer to reserves (Note 30)	-	(12,768)	12,768	-	-	-
Final dividends for 2006 (Note 15)	-	(27,694)	-	(27,694)	-	(27,694)
Interim dividends for 2007 (Note 15)	-	(36,823)	-	(36,823)	-	(36,823)
Dividends to minority interest	-	-	-	-	(6,144)	(6,144)
Purchase of minority interest in subsidiaries (Note 19)	-	-	(113)	(113)	(65)	(178)
Issuance of A shares	4,000	-	62,243	66,243	-	66,243
Consolidation of PetroKazakhstan Inc.	-	-	-	-	8,101	8,101
Capital contribution from minority interest	-	-	-	-	1,349	1,349
Fair value gain from available-for-sale financial assets	-	-	261	261	-	261
Other	-	-	-	-	(19)	(19)
Balance at December 31, 2007	183,021	332,432	217,952	733,405	42,942	776,347

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 ("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 and sale 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 39).

2 BASIS OF PREPARATION

The consolidated financial statements, (comprising the consolidated balance sheet, the consolidated profit and loss account, cash flow statement and statement of changes in equity and a summary of significant accounting policies and other explanatory notes) 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 5.

In 2007, with the exception of IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures' that introduces certain new disclosures (Note 4) relating to financial instruments, the adoption of other relevant new standards and interpretations does not have any significant impact on the consolidated financial statements.

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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.

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries except for the business combination under common control. 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 the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

An acquisition of a business which is a business combination under common control is accounted for in a manner similar to a uniting of interests whereby the assets and liabilities acquired are accounted for at carryover predecessor values to the other party to the business combination with all periods presented as if the operations of the Group and the business acquired have always been combined. The difference between the consideration paid by the Group and the net assets or liabilities of the business acquired is adjusted against equity.

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 19.

(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 of accounting in the consolidated financial statements of the Group and are initially recognised at cost. Under this method of accounting 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 carrying amounts of the investments. 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 17.

(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 jointly controlled entities is accounted for by the equity method of accounting (Note 3(b)) in the consolidated financial statements.

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

A listing of the Group's principal jointly controlled entities is shown in Note 17.

(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 (Note 39), and the functional currency of the Company and most of the consolidated subsidiaries is the Renminbi ("RMB"). The consolidated financial statements are presented in the presentation currency of RMB.

Foreign currency transactions of the Group are accounted for at the exchange rates prevailing at the respective dates of the transactions; monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the balance sheet date; gains and losses resulting from the settlements of such transactions and from the translation of monetary assets and liabilities are recognised in the consolidated profit and loss account.

For the Group's entities that have a functional currency different from the Group's presentation currency, assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date. Income and expenses for each income statement presented are translated at average exchange rates and the resulting exchange differences are recognised as a separate component of equity.

The Group has no 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) Property, plant and equipment

Property, plant and equipment, including oil and gas properties (Note 3 (g)), are 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 revalued amounts. 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 adjustments are made if the carrying values differ significantly from their respective fair values.

Increases in the carrying values arising from revaluations are credited to the revaluation reserve. Decreases in the carrying values arising from revaluations are first offset against increases from earlier revaluations in respect of the same assets and are thereafter charged to the consolidated profit and loss account. All other decreases carrying values are charged to the consolidated profit and loss account. Any subsequent increases are credited to the consolidated profit and loss account up to the respective amounts 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 future revaluation losses.

Depreciation, to write off the cost or valuation of each asset, other than oil and gas properties (Note 3(g)), 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 and Plant	8 - 40 years
Equipment and Machinery	4 - 30 years
Motor vehicles	7 - 14 years
Other	5 - 12 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(g)), 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 cash generating unit.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts 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 asset 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 or betterments which are capitalised as part of property, plant and equipment and depreciated over their useful lives.

(g) 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 and natural gas 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(f)). For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalised only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes. The Group does not have any significant 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. 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 based 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 condensate and natural gas which management believes can be reasonably produced within the current terms of these production licenses.

(h) Intangible assets

Expenditures on acquired patents, trademarks, technical know-how and licenses are capitalised at historical cost and amortised using the straight-line method over their useful lives, generally less than 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 estimated net present value of future cash flows to be derived from the asset.

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group has only loans and receivables and available-for-sale financial assets. The detailed accounting policies for loans and receivables and available-for-sale financial assets held by the Group are set out below.

- Loans and receivables

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 maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise accounts receivable, notes receivable, other receivables, time deposits and cash and cash equivalents in the balance sheet. The recognition methods for loans and receivables are disclosed in the respective policy statements.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories; these are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Group's available-for-sale financial assets primarily comprise unquoted equity instruments.

Regular purchases and sales of available-for-sale financial assets 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 financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred out substantially all risks and rewards of ownership in the investment. Available-for-sale financial assets 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 financial assets that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are carried at cost. The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired. The amount of the impairment loss in measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of the estimated cash flows.

(j) Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. The Group has no significant finance leases.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms. 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 of use range up to 50 years.

(k) 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, jointly 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.

(l) Inventories

Inventories include oil products, chemical products and materials and supplies which are stated at the lower of cost and net realisable value. Cost is primarily 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 costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

(m) Accounts receivable

Accounts receivable 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 amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(n) 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.

(o) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(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.

Borrowing costs should be recognised as an expense in the period in which they are incurred except for the portion eligible for capitalisation as part of qualifying property, plant and equipment.

Borrowings are classified as current liabilities unless the Group has unconditional rights to defer settlements of the liabilities 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 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. Deferred tax is determined using tax rates (and tax laws) that has been enacted or substantially enacted by the balance sheet date and are expected to apply to the period when the related deferred tax asset is realised or deferred tax liability is settled.

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 9), 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 collectability of the related receivables is reasonably assured.

The Group markets a portion of its natural gas 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 present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and reliable estimates of the amounts 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 due to passage of time which is regarded as interest expense, 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 PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in China. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in China. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas 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 the PRC or overseas other than the monthly contributions described above.

(v) Share-based compensation – Share appreciation right

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 the changes in liability recorded in employee compensation costs in the consolidated profit and loss account; the related liability is included in the salaries and welfare payable.

(w) New accounting developments

IAS 1 (Amendment), 'Presentation of financial statements' requires all changes in equity arising from transactions with owners in their capacity as owners and related current and deferred tax impacts be presented separately from non-owner changes in equity. Recognised income and expenses shall be presented in a single statement (a statement of comprehensive income) or in two statements (a statement of profit or loss and a statement of comprehensive income), separately from owner changes in equity. IAS 1 (Amendment) is effective from January 1, 2009 and the group is currently evaluating the impact of IAS 1 (Amendment) on the Group's financial statements.

IAS 23 (Amendment), 'Borrowing costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. IAS 23 (Amendment) is effective from January 1, 2009 and the adoption of IAS 23 (Amendment) is not expected to affect the Group's financial statements as interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised under the Group's current accounting policy.

IFRS 8, 'Operating segments ' replaces IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. IFRS 8 is effective from January 1, 2009 and the Group is currently evaluating the impact of IFRS 8 on the Group's financial statements.

IFRIC 11, 'IFRS 2–Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group entities. IFRIC 11 is effective from March 1, 2007 and the Group's current evaluating the impact of IFRIC 11 on the Group' s financial statements.

IFRIC 13, 'Customer loyalty programmes' clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is effective from January 1, 2009 and the Group is currently evaluating the impact of IFRIC 13 on the Group's financial statements.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' provides guidance on assessing the limit in IAS 19 on the amount of the funding surplus that can be recognised as defined benefit asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is effective from January 1, 2009 and the Group is currently evaluating the impact of IFRIC 14 on the Group's financial statements.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including market risk, credit risk and liquidity risk.

(a) Market risk

• Foreign exchange rate risk

The Group conducts its business primarily in RMB, but maintains a portion of its assets in other currencies to meet its needs for normal business operations. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitation in foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates. Management is not in a position to anticipate changes in the PRC foreign exchange regulations and as such is unable to reasonably anticipate the impacts on the Group' s results of operations or financial position arising from future changes in exchange rates.The Group did not enter into material hedge contracts during any of the years presented to hedge against its foreign exchange rate risk.

• Cash flow and fair value interest rate risk

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

• Price risk

The Group is engaged in a wide range of petroleum-related activities. Prices of crude oil and petroleum products are affected by a wide range of global and domestic factors which are beyond the control of the Group. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. The Group historically has not used commodity derivative instruments to hedge against potential price fluctuations of crude oil or petroleum products and therefore the Group is exposed to general price fluctuations of crude oil and petroleum products.

(b) Credit risk

Credit risk arises primarily from cash and cash equivalents, accounts receivable, other receivables, notes receivable and time deposits. As the majority of cash at bank and time deposits are placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. The Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, notes receivable and time deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(c) Liquidity risk

The Group's liquidity risk management involves maintaining sufficient cash and cash equivalents and availability of funding through an adequate amount of committed credit facilities.

Analysis of the Group's financial liabilities based on the remaining period at the balance sheet date to the contractual maturity dates are presented in Note 28.

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so as to provide returns for equity holders and to reduce its cost of capital.

4.3 Fair value estimation

The methods and assumptions applied in determining the fair value of each class of financial assets and financial liabilities of the Group at December 31, 2007 and 2006 are disclosed in the respective accounting policies.

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, time deposits with maturities over three months but within one year, accounts receivable, other receivables, trade payables, other payables and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 28.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are regularly 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 estimates and 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 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. 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.

(b) Estimation of impairment of property, plant and equipment

Property, plant and equipment, including oil and gas properties, are reviewed for possible impairments 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 plans. These assumptions also include those relative to the pricing regulations by the regulatory agencies in China that the pricing regulations will not restrict the profit margins of refined products to levels that will be insufficient to recover the carrying values of the related production assets. Favourable changes to some assumptions may allow the Group to 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

Provision is recognised for the future decommissioning and restoration of oil and gas properties. The amounts of the provision 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 lives 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 lives of the oil and gas properties.

6 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 39.

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7 PROFIT BEFORE TAXATION

	2007 RMB	2006 RMB
Profit before taxation is arrived at after crediting and charging of the following items:		
Crediting		
Dividend income from available-for-sale financial assets	111	208
Reversal of provision for impairment of receivables	2,473	460
Reversal of impairment of available-for-sale financial assets	-	4
Reversal of write down in inventories	98	180
Charging		
Amortisation on intangible and other assets	1,491	1,250
Auditors' remuneration	119	140
Cost of inventories (approximates cost of goods sold) recognised as expense	459,472	341,456
Depreciation on property, plant and equipment, including impairment provision		
- owned assets	63,349	58,669
- assets under finance leases	6	6
Impairment of available-for-sale financial assets	-	36
Provision for impairment of receivables	120	144
Interest expense (Note 10)	3,595	3,220
Loss on disposal of property, plant and equipment	1,808	1,753
Operating lease expenses	7,439	5,378
Repair and maintenance	10,691	9,233
Research and development expenses	5,315	4,260
Transportation expenses	20,540	17,872
Write down in inventories	153	320

8 EMPLOYEE COMPENSATION COSTS

	2007 RMB	2006 RMB
Wages and salaries	32,562	26,629
Social security costs	18,054	12,532
	50,616	39,161

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

(Amounts in millions unless otherwise stated)

9 TAXES OTHER THAN INCOME TAXES

Taxes other than income taxes include RMB 44,582 for the year ended December 31, 2007 (2006: RMB 28,914) of special levy which is paid or payable on the portion of income realised from the sales of domestically-produced crude oil at prices above certain level. This levy was imposed by the PRC government and became effective from March 26, 2006.

10 INTEREST EXPENSE

	2007	2006
	RMB	RMB
Interest on		
Bank loans		
- wholly repayable within five years	1,985	1,952
- not wholly repayable within five years	181	73
Other loans		
- wholly repayable within five years	1,643	1,218
- not wholly repayable within five years	318	496
Accretion expense (Note 32)	1,202	796
Less: Amounts capitalised	(1,734)	(1,315)
	3,595	3,220

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of acquiring qualifying assets. Interest rates on such capitalised borrowings range from 5.832% to 6.966% (2006: 5.265% to 5.832%) per annum.

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11 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Details of the emoluments of directors and supervisors for the years ended December 31, 2007 and 2006 are as follows:

	2007				2006
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 (i), (iii)	-	586	12	598	797
Mr. Jiang Jiemin (iii)	-	886	30	916	722
	-	1,472	42	1,514	1,519
Executive directors:					
Mr. Su Shulin (ii)	-	-	-	-	684
Mr. Duan Wende (iii)	-	794	30	824	684
	-	794	30	824	1,368
Non-executive directors:					
Mr. Zheng Hu	-	-	-	-	-
Mr. Zhou Jiping	-	-	-	-	-
Mr. Wang Yilin	-	-	-	-	-
Mr. Zeng Yukang	-	-	-	-	-
Mr. Gong Huazhang	-	-	-	-	-
Mr. Jiang Fan	-	480	19	499	461
Mr. Chee-chen Tung	264	-	-	264	275
Mr. Liu Hongru	349	-	-	349	279
Mr. Franco Bernabè	257	-	-	257	259
	870	480	19	1,369	1,274
Supervisors:					
Mr. Wang Fucheng	-	-	-	-	-
Mr. Wen Qingshan	-	-	-	-	-
Mr. Sun Xianfeng	-	-	-	-	-
Mr. Xu Fengli (i)	-	252	12	264	459
Mr. Qin Gang	-	454	15	469	295
Mr. Li Yongwu	315	-	-	315	330
Mr. Wu Zhipan	319	-	-	319	330
Mr. Zhang Jinzhu	-	315	18	333	-
	634	1,021	45	1,700	1,414
	1,504	3,767	136	5,407	5,575

(Amounts in millions unless otherwise stated)

(i) No longer a director or supervisor since May 16, 2007.

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

(iii) Salaries, allowances and other benefits do not include deferred payments made to directors in accordance with the relevant PRC government regulations, in respect of 2004 to 2006 in the amount of RMB 2,402 thousand.

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

	2007	2006
	Number	**Number**
RMB Nil – RMB 1 million	20	20

Fee for directors and supervisors disclosed above included RMB 870 thousand (2006: RMB 813 thousand) paid to independent non-executive directors.

None of the directors and supervisors has waived their remuneration during the year ended December 31, 2007 (2006: None).

The five highest paid individuals in the Group for each of the two years ended December 31, 2007 and 2006 were also directors or supervisors and their emoluments are reflected in the analysis shown above.

During 2007 and 2006, 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-based compensation 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 (Note 29) .

As at December 31, 2007, 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 1,400 (2006: RMB 1,167) at December 31, 2007.

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12 TAXATION

	2007	2006
	RMB	RMB
Income tax	48,332	50,972
Deferred tax (Note 31)	820	(1,196)
	49,152	49,776

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is principally 33% (2006: 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 corporate income tax rate in the PRC applicable to the Group as follows:

	2007	2006
	RMB	RMB
Profit before taxation	204,381	199,173
Tax calculated at a tax rate of 33%	67,446	65,727
Prior year tax return adjustment	451	243
Effect of income taxes from international operations in excess of taxes at the PRC statutory tax rate	644	1,512
Effect of preferential tax rate	(16,930)	(14,169)
Effect of changes in PRC corporate income tax rate	(3,758)	-
Tax effect of income not subject to tax	(3,138)	(1,602)
Tax effect of taxable items deductible not expensed	(2,365)	-
Tax effect of expenses not deductible for tax purposes	3,884	2,466
Tax effect of unused tax losses which had expired	2,918	-
Tax effect of temporary differences in relation to certain crude oil sales which no longer existed at year end	-	(4,401)
Taxation	49,152	49,776

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"), which is effective from January 1, 2008. Under the new CIT Law, the corporate income tax rate applicable to the Group is reduced to 25% from January 1, 2008, replacing the previously applicable tax rate of 33%.

The management of the Group has reassessed its tax position in the year ended December 31, 2007 by reference to the enacted new CIT Law and accordingly a net decrease in deferred tax charge for the year ended December 31, 2007 of RMB 3,758 was recorded.

(Amounts in millions unless otherwise stated)

13 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 Group to the extent of RMB 145,625 for the year ended December 31, 2007 (2006: RMB 142,224).

14 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the year ended December 31, 2007 have been computed by dividing profit for the year attributable to equity holders of the Company by the weighted average number of 179,700 million shares issued and outstanding for the year.

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.

There are no potential dilutive ordinary shares.

15 DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2007 RMB	2006 RMB
Final dividends attributable to equity holders of the Company for 2005 (note a)	-	32,282
Interim dividends attributable to equity holders of the Company for 2006 (note b)	-	36,307
Final dividends attributable to equity holders of the Company for 2006 (note c)	27,694	-
Interim dividends attributable to equity holders of the Company for 2007 (note d)	36,823	-
	64,517	68,589

(a) Final dividends attributable to equity holders of the Company in respect of 2005 of RMB 0.180325 yuan per share amounting to a total of RMB 32,282 were approved by the shareholders in the Annual General Meeting on May 26, 2006 and accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2006, and were paid on June 9, 2006.

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

(c) Final dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.154699 yuan per share amounting to a total of RMB 27,694 were approved by the shareholders in the Annual General Meeting on May 16, 2007 and accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2007, and were paid on June 1, 2007.

(d) Interim dividends attributable to equity holders of the Company in respect of 2007 of RMB 0.205690 yuan per share amounting to a total of RMB 36,823 were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2007, and were paid on September 28, 2007.

(e) At the meeting on March 19, 2008, the Board of Directors proposed final dividends attributable to equity holders of the Company in respect of 2007 of RMB 0.156859 yuan per share amounting to a total of RMB 28,708. 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, 2008 when approved at the forthcoming Annual General Meeting.

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16 PROPERTY, PLANT AND EQUIPMENT

Group

Year Ended December 31, 2006	Buildings	Oil and Gas Property	Equipment and Machinery	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 unless otherwise stated)

Group (continued)

Year Ended December 31, 2007	Buildings	Oil and Gas Property	Equipment and Machinery	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	80,143	575,321	307,835	12,112	7,976	73,892	1,057,279
Additions	2,928	7,513	2,296	3,237	293	170,031	186,298
Transfers	8,778	96,332	25,916	-	885	(131,911)	-
Consolidation of PetroKazakhstan Inc.	184	8,119	247	170	136	1,310	10,166
Disposals or write off	(1,585)	(17,700)	(2,443)	(423)	(265)	-	(22,416)
Currency translation differences	(52)	(878)	(133)	(10)	(19)	(189)	(1,281)
At end of the year	90,396	668,707	333,718	15,086	9,006	113,133	1,230,046
Accumulated depreciation and impairment							
At beginning of the year	(19,273)	(233,677)	(147,784)	(6,530)	(4,381)	(297)	(411,942)
Charge for the year	(5,023)	(36,400)	(19,939)	(1,213)	(775)	(5)	(63,355)
Disposals or write off	1,459	4,687	1,073	344	102	17	7,682
Currency translation differences	8	398	25	6	14	-	451
At end of the year	(22,829)	(264,992)	(166,625)	(7,393)	(5,040)	(285)	(467,164)
Net book value							
At end of the year	67,567	403,715	167,093	7,693	3,966	112,848	762,882
Analysis of cost or valuation							
At valuation (i)	20,266	480,271	149,148	1,905	894	-	652,484
At cost (ii)	70,130	188,436	184,570	13,181	8,112	113,133	577,562
	90,396	668,707	333,718	15,086	9,006	113,133	1,230,046
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	64,439	400,611	154,734	7,342	3,557	112,848	743,531

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Company

Year Ended December 31, 2006	Buildings	Oil and Gas Property	Equipment and Machinery	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 subsidiaries	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 subsidiaries	(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

(Amounts in millions unless otherwise stated)

Company (continued)

Year Ended December 31, 2007	Buildings	Oil and Gas Property	Equipment and Machinery	Motor Vehicles	Other	Construction in Progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Cost or valuation							
At beginning of the year	54,433	379,503	252,281	7,306	5,690	61,585	760,798
Transfer from subsidiaries	2,246	4,395	15,228	348	1,591	165	23,973
Additions	1,993	4,654	2,236	2,497	227	129,890	141,497
Transfers	6,688	70,993	21,862	-	512	(100,055)	-
Disposals or write off	(1,265)	(10,272)	(2,103)	(234)	(103)	-	(13,977)
At end of the year	64,095	449,273	289,504	9,917	7,917	91,585	912,291
Accumulated depreciation and impairment							
At beginning of the year	(14,684)	(152,065)	(120,400)	(4,090)	(2,600)	(252)	(294,091)
Transfer from subsidiaries	(1,015)	(2,583)	(10,400)	(266)	(1,102)	(6)	(15,372)
Charge for the year	(3,922)	(24,651)	(16,245)	(730)	(402)	(1)	(45,951)
Disposals or write off	1,148	1,632	768	212	26	9	3,795
At end of the year	(18,473)	(177,667)	(146,277)	(4,874)	(4,078)	(250)	(351,619)
Net book value							
At end of the year	45,622	271,606	143,227	5,043	3,839	91,335	560,672
Analysis of cost or valuation							
At valuation (i)	13,720	313,578	121,142	1,262	1,061	-	450,763
At cost (ii)	50,375	135,695	168,362	8,655	6,856	91,585	461,528
	64,095	449,273	289,504	9,917	7,917	91,585	912,291
Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation	44,596	266,783	131,498	4,833	3,405	91,335	542,450

(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 unless otherwise stated)

The depreciation charge of the Group for the year ended December 31, 2007 included RMB 294 (2006: RMB 2,642) relating to impairment provision for property, plant and equipment, analysed by segment as follows:

	Group	
	2007	2006
	RMB	RMB
Refining and Marketing	201	1,734
Chemical and Marketing	93	908
	294	2,642

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, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Short-term lease (less than 10 years)	764	363	528	360
Medium-term lease (10 to 50 years)	66,803	60,507	45,094	39,389
	67,567	60,870	45,622	39,749

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, analysed by segment as follows:

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Exploration and Production	45	45	45	45
Refining and Marketing	7	-	6	-
Accumulated depreciation	(24)	(18)	(24)	(18)
	28	27	27	27

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

(Amounts in millions unless otherwise stated)

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, 2007 and 2006.

	2007	2006
	RMB	RMB
Beginning balance at January 1	8,998	8,296
Additions to capitalised exploratory well costs pending the determination of proved reserves	22,649	19,076
Reclassified to wells, facilities, and equipment based on the determination of proved reserves	(10,534)	(8,880)
Capitalised exploratory well costs charged to expense	(9,161)	(9,494)
Ending balance at December 31	11,952	8,998
Number of wells at year end	928	869

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

	December 31, 2007	December 31, 2006
	RMB	RMB
One year or less	10,981	8,359
Over one year	971	639
Balance at December 31	11,952	8,998

RMB 971 at December 31, 2007 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.

A valuation of all 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.

(Amounts in millions unless otherwise stated)

Bank borrowings are secured on property, plant and equipment with a net book value of RMB Nil at December 31, 2007 (2006: RMB 39).

17 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 profit were as follows:

Name	Country of Incorporation	Assets RMB	Liabilities RMB	Revenues RMB	Profit RMB	Interest Held %	Type of Share
As of or for the year ended December 31, 2007:							
Dalian West Pacific Petrochemical Co., Ltd.	PRC	4,044	3,097	10,116	174	28.44	ordinary
China Marine Bunker (PetroChina) Co., Ltd.	PRC	3,128	2,006	17,030	137	50.00	ordinary
PetroKazakhstan Inc.	Canada	-	-	12,361	4,498	67.00	ordinary
Other		34,929	10,463	38,549	2,188	20.00-50.00	ordinary
		42,101	15,566	78,056	6,997		
As of or for the year ended December 31, 2006:							
Dalian West Pacific Petrochemical Co., Ltd.	PRC	3,410	2,608	10,188	6	28.44	ordinary
China Marine Bunker (PetroChina) Co., Ltd.	PRC	3,388	2,098	19,003	139	50.00	ordinary
PetroKazakhstan Inc.	Canada	22,642	1,240	144	43	67.00	ordinary
Other		26,995	17,533	40,903	2,089	20.00-70.00	ordinary
		56,435	23,479	70,238	2,277		

Dividends received and receivable from associates and jointly controlled entities were RMB 1,357 in 2007 (2006: RMB 1,730).

In 2007, investments in associates and jointly controlled entities of RMB 833 (2006: RMB 59) were disposed of for a gain of 320 (2006: RMB 10).

On December 28, 2006, the Group acquired a 67% equity interest in PetroKazakhstan Inc. from CNPC International Limited, a subsidiary of CNPC for a consideration of RMB 21,376. Pursuant to the shareholders' agreement in relation to the acquisition of PetroKazakhstan Inc., each shareholder had a veto right relating to certain financial and operating decisions, and the Group was therefore considered to have joint control over PetroKazakhstan Inc. As such, in accordance with the Group's accounting policy, the Group accounted for its investment in PetroKazakhstan Inc., using the equity method of accounting from December 28, 2006. The revenue and profit disclosed in the table above represents the Group's share of PetroKazakhstan Inc.'s revenue and profit for the period from December 28, 2006 to December 31, 2006, and also from January 1, 2007 to December 11, 2007.

(Amounts in millions unless otherwise stated)

On December 12, 2007, through a supplementary agreement between the Group and the minority shareholder of PetroKazakhstan Inc., the Group gained control over PetroKazakhstan Inc. from that date. Therefore, as of the date it acquired control over PetroKazakhstan Inc., December 12, 2007, the Group accounts for its investment in PetroKazakhstan Inc. as a subsidiary in accordance with IFRS 3, 'Business combinations'.

The net assets of PetroKazakhstan Inc. at December 12, 2007 amounted to RMB 24,549. The fair value (which approximated their carrying value) of assets and liabilities of PetroKazakhstan Inc. consolidated on December 12, 2007 were as follows:

	RMB
Current assets	6,587
Non-current assets	20,456
Current liabilities	(1,732)
Non-current liabilities	(762)

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Available-for-sale financial assets	3,068	2,562	1,987	1,510
Less: Impairment provision	(487)	(508)	(481)	(499)
	2,581	2,054	1,506	1,011

Available-for-sale financial assets comprise principally unlisted equity securities.

Dividend income from available-for-sale financial assets amounted to RMB 111 in 2007 (2006: RMB 208).

In 2007, available-for-sale financial assets of RMB 145 (2006: RMB 1) were disposed of with a gain of 142 (2006: RMB 3).

(Amounts in millions unless otherwise stated)

19 SUBSIDIARIES

The principal subsidiaries of the Group 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	Limited liability company	100.00	Exploration, production and sale of crude oil and natural gas; production and sale of refined products
Daqing Yu Shu Lin Oilfield Company Limited	PRC	1,272	Limited liability company	88.16	Exploration, production and sale of crude oil and natural gas
CNPC Exploration and Development Company Limited	PRC	100	Limited liability company	50.00	Exploration, production and sale of crude oil and natural gas outside of the PRC
PetroKazakhstan Inc. (Note 17)	Canada	US Dollar 2,465 million	Joint stock company with limited liability	67.00	Exploration, production and sale of crude oil and natural gas outside of the PRC

Pursuant to the resolutions passed at the Board of Directors' meeting held on October 26, 2005, the Company offered to acquire and complete the acquisition of all of the outstanding shares from the minority shareholders of the following entities of the Group.

(Amounts in millions unless otherwise stated)

Entity name	Number of outstanding shares	Purchase price per share	Number of shares acquired	Total cash consideration paid	Equity inteset held after the acquisition %	
Jinzhou PetroChemical Company Limited ("JCPL")	150,000,000 A shares	RMB 4.25 yuan per A share	150,000,000 A shares as of June 30, 2007	RMB 638 as of December 31, 2007	100.00	JCPL was delisted from the Shenzhen Stock Exchange on January 4, 2006. In November 2007, the Liaoning Administration for Industry and Commerce approved JCPL's deregistration as an incorporated company.
Jilin Chemical Industrial Company Limited ("JCIC")	200,000,000 A shares	RMB 5.25 yuan per A share	200,000,000 A shares as of December 31, 2007	RMB 3,862 as of December 31, 2007	100.00	JCIC was delisted from the Shenzhen Stock Exchange on February 20, 2006.
	964,778,000 H shares (including American Depositary Shares) ("ADS")	HK$ 2.80 per H share	964,778,000 H shares (including ADS) as of December 31, 2007			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. In December 2007, the Jilin Administration for Industry and Commerce approved JCIC's deregistration as an incorporated company.
Liaohe Jinma Oilfield Company Limited ("LJOCL")	200,000,000 A shares	RMB 8.80 yuan per A share	200,000,000 A shares as of June 30, 2007	RMB 1,763 as of December 31, 2007	100.00	LJOCL was delisted from the Shenzhen Stock Exchange on January 4, 2006. In May 2007, the Liaoning Administration for Industry and Commerce approved LJOCL' s deregistration as an incorporated company.

The excess of the cost of purchase over the carrying value of the underlying assets and liabilities of the above non-wholly owned principal subsidiaries and other non-wholly subsidiaries acquired was recorded in equity, and this amounted to RMB 113 for the year ended December 31, 2007 (2006: RMB 2,156).

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20 ADVANCE OPERATING LEASE PAYMENTS

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Land use rights	14,411	12,184	11,886	9,069
Advance lease payments	9,006	8,284	7,112	6,707
	23,417	20,468	18,998	15,776

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 terms using the straight-line method.

21 INTANGIBLE AND OTHER ASSETS

Group

	December 31, 2007			December 31, 2006		
	Cost	Accumulated amortisation	Net	Cost	Accumulated amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	2,621	(1,343)	1,278	2,325	(1,109)	1,216
Technical know-how	281	(124)	157	276	(103)	173
Other	5,273	(1,242)	4,031	3,369	(1,041)	2,328
Intangible assets	8,175	(2,709)	5,466	5,970	(2,253)	3,717
Other assets			3,022			2,910
			8,488			6,627

Company

	December 31, 2007			December 31, 2006		
	Cost	Accumulated amortisation	Net	Cost	Accumulated amortisation	Net
	RMB	RMB	RMB	RMB	RMB	RMB
Patents	2,132	(857)	1,275	1,793	(691)	1,102
Technical know-how	183	(50)	133	144	(29)	115
Other	4,042	(1,073)	2,969	2,747	(846)	1,901
Intangible assets	6,357	(1,980)	4,377	4,684	(1,566)	3,118
Other assets			2,811			2,502
			7,188			5,620

(Amounts in millions unless otherwise stated)

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.

22 INVENTORIES

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Crude oil and other raw materials	30,308	24,143	25,222	16,964
Work in progress	6,083	5,493	5,834	5,156
Finished goods	52,791	47,263	39,839	38,578
Spare parts and consumables	32	41	26	32
	89,214	76,940	70,921	60,730
Less: Write down in inventories	(747)	(902)	(637)	(460)
	88,467	76,038	70,284	60,270

Inventories of the Group carried at net realisable value amounted to RMB 1,981 (2006: RMB 3,415) at December 31, 2007.

23 ACCOUNTS RECEIVABLE

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Accounts receivable due from third parties	15,296	9,498	2,989	2,333
Accounts receivable due from related parties	6,002	2,247	1,796	1,847
	21,298	11,745	4,785	4,180
Less: Provision for impairment of receivables	(2,879)	(3,257)	(2,654)	(2,606)
	18,419	8,488	2,131	1,574

Amounts due from related parties are interest free and unsecured (Note 38).

The aging analysis of accounts receivable at December 31, 2007 and December 31, 2006 is as follows:

(Amounts in millions unless otherwise stated)

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Within 1 year	18,260	8,299	2,025	1,432
Between 1 to 2 years	39	33	22	32
Between 2 to 3 years	32	59	31	37
Over 3 years	2,967	3,354	2,707	2,679
	21,298	11,745	4,785	4,180

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

Movements on the provision for impairment of receivables are as follows:

	Group	
	2007	2006
	RMB	RMB
At beginning of the year	3,257	3,998
Provision for impairment of receivables	49	99
Receivables written off during the year as uncollectible	(288)	(615)
Reversal of provision for impairment of receivables	(139)	(225)
At end of the year	2,879	3,257

24 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Other receivables	9,329	7,083	6,210	4,957
Amounts due from related parties				
- Subsidiaries	-	-	12,997	7,890
- Other	19,556	15,925	14,713	9,223
Advances to suppliers	10,720	6,087	8,258	3,485
	39,605	29,095	42,178	25,555
Less: Provision for impairment	(4,079)	(6,506)	(2,121)	(3,960)
	35,526	22,589	40,057	21,595
Prepaid expenses	304	326	269	190
Other current assets	188	366	188	267
	36,018	23,281	40,514	22,052

(Amounts in millions unless otherwise stated)

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 38 (g)), all other amounts due from related parties are interest free, unsecured and with no fixed terms of repayment.

25 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.

26 CASH AND CASH EQUIVALENTS

The weighted average effective interest rate on bank deposits was 2.00% per annum for the year ended December 31, 2007 (2006: 1.95% per annum).

27 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Trade payables	40,447	22,490	17,892	10,529
Advances from customers	9,846	9,310	8,331	6,980
Salaries and welfare payable	11,585	8,844	10,751	7,634
Accrued expenses	5	10	3	9
Dividends payable by subsidiaries to minority shareholders	67	60	-	-
Interest payable	65	3	58	3
Construction fee and equipment cost payables	30,784	28,349	25,363	21,390
One-time employee housing remedial payment payable	221	933	218	933
Amounts due to related parties				
-Subsidiaries	-	-	33,227	30,428
-Other	40,334	35,273	28,470	30,842
Other payables	10,999	14,910	7,666	11,252
	144,353	120,182	131,979	120,000

Other payables consist primarily of customer deposits.

Amounts due to related parties are interest-free, unsecured and with no fixed terms of repayments (Note 38).

(Amounts in millions unless otherwise stated)

The aging analysis of trade payables at December 31, 2007 and 2006 is as follows:

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Within 1 year	39,005	19,994	16,610	9,514
Between 1 to 2 years	819	1,966	733	595
Between 2 to 3 years	307	196	279	144
Over 3 years	316	334	270	276
	40,447	22,490	17,892	10,529

28 BORROWINGS

(a) Short-term borrowings

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Bank loans				
- secured	320	23	-	-
- unsecured	18,363	14,812	13,907	10,611
Loans from a fellow CNPC subsidiary	50	320	3,990	-
Other	1	1	1	1
	18,734	15,156	17,898	10,612
Current portion of long-term borrowings	12,200	20,607	9,029	17,064
	30,934	35,763	26,927	27,676

(Amounts in millions unless otherwise stated)

(b) Long-term borrowings

	Interest rates and final maturities	Group December 31, 2007 RMB	Group December 31, 2006 RMB	Company December 31, 2007 RMB	Company December 31, 2006 RMB
Renminbi – denominated borrowings:					
Bank loans for the development of oil fields and construction of refining plants	Majority floating interest rates ranging from 6.16% to 6.80% per annum as of December 31, 2007, with maturities through 2022	6,720	8,390	3,820	6,600
Bank loans for working capital	Floating interest rates ranging from 5.67% to 6.89% per annum as of December 31, 2007, with maturities through 2012	6,030	6,000	6,000	6,000
Loans from a fellow CNPC subsidiary for the development of oil fields and construction of refining plants	Floating interest rates ranging from 4.46% to 5.76% per annum as of December 31, 2007, with maturities through 2032	19,862	16,782	19,862	16,782
Working capital loans from a fellow CNPC subsidiary	Fixed interest rate at 4.61% per annum as of December 31, 2007, with maturities through 2008	70	4,130	70	4,130
Working capital loans	Fixed interest rate at 6.32% per annum as of December 31, 2007, with no fixed repayment terms	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 as of December 31, 2007, with maturities through 2007	-	1,365	-	1,365
Corporate debenture for the development of oil and gas properties	Fixed interest rates ranging from 3.76% to 4.11% per annum as of December 31, 2007, with maturities through 2013	3,500	3,523	3,500	3,523

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	Interest rates and final maturities	Group		Company	
		December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		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 zero to 8.66% per annum as of December 31, 2007, with maturities through 2038	403	969	403	444
Bank loans for the development of oil fields and construction of refining plants	Floating interest rates ranging from 5.10% to 7.50% per annum as of December 31, 2007, with maturities through 2014	4,927	3,589	498	597
Bank loans for working capital	Floating interest rates ranging from LIBOR plus 0.30% to LIBOR plus 2.50% per annum as of December 31, 2007, with maturities through 2010	2,630	1,326	2,556	-
Bank loans for acquisition of overseas oil and gas properties	Floating interest rate at LIBOR plus 0.55% per annum as of December 31, 2007, with maturities through 2009	821	1,368	-	-
Loans from a 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, 2007, with maturities through 2020	4,171	4,481	4,171	4,481
Loans from a fellow CNPC subsidiary for working capital	Floating interest rate at LIBOR plus 0.60% per annum as of December 31, 2007, with maturities through 2008	329	1,471	-	-
Loans for the development of oil fields and construction of refining plants	Fixed interest rate at 1.55% per annum as of December 31, 2007, with maturities through 2022	404	462	404	462

(Amounts in millions unless otherwise stated)

	Interest rates and final maturities	Group		Company	
		December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
		RMB	RMB	RMB	RMB
Loans for working capital	Majority floating interest rate at LIBOR plus 0.35% per annum as of December 31, 2007, with maturities through 2008	609	650	-	-
Corporate debenture for the development of oil fields and construction of refining plants	Fixed interest rate at 3.00% per annum as of December 31, 2007, with maturities through 2019	335	353	-	-
Corporate debenture for the development of oil and gas properties	Fixed interest rate at 9.50% per annum as of December 31, 2007, with maturities through 2011	730	817	-	-
Corporate debenture for the development of oil and gas properties	Fixed interest rate at 15.00% per annum as of December 31, 2007, with maturities through 2008	58	179	-	-
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 4.10% per annum as of December 31, 2007, with maturities through 2010	37	75	37	34
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 as of December 31, 2007, with maturities through 2023	247	257	247	257
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 as of December 31, 2007, with maturities through 2007	-	49	-	49
Total long-term borrowings		51,888	56,241	41,573	44,729
Less: Current portion of long-term borrowings		(12,200)	(20,607)	(9,029)	(17,064)
		39,688	35,634	32,544	27,665

(Amounts in millions 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 60 (2006: RMB 68) at December 31, 2007.

Borrowings of RMB 498 were guaranteed by CNPC and its subsidiaries at December 31, 2007 (2006: RMB 597), and borrowings of RMB 30 were guaranteed by the Company and third parities (2006: RMB Nil).

The Group's borrowings include secured liabilities (bank borrowings) totalling RMB 3,607 at December 31, 2007 (2006: RMB 359). These bank borrowings are secured over certain of the Group's notes receivable, inventories and time deposits with maturities over one year.

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Total borrowings:				
- interest free	60	68	60	-
- at fixed rates	11,940	20,850	5,910	16,706
- at floating rates	58,622	50,479	53,501	38,635
	70,622	71,397	59,471	55,341
Weighted average effective interest rates:				
- bank loans	5.54%	5.51%	5.38%	5.25%
- loans from a fellow CNPC subsidiary	5.17%	4.98%	4.66%	4.92%
- other loans	3.64%	3.93%	1.53%	1.53%
- corporate debentures	4.87%	5.04%	3.91%	4.08%

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

	Group		Company	
	Carrying Amounts			
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Bank loans	21,815	22,023	13,561	13,981
Loans from a fellow CNPC subsidiary	24,432	26,864	24,103	25,393
Corporate debentures	4,623	6,237	3,500	4,888
Other	1,018	1,117	409	467
	51,888	56,241	41,573	44,729

(Amounts in millions unless otherwise stated)

	Group		Company	
	Fair Values			
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Bank loans	21,580	21,858	13,342	13,839
Loans from a fellow CNPC subsidiary	24,428	26,861	24,099	25,389
Corporate debentures	4,104	5,852	2,981	4,449
Other	883	997	274	347
	50,995	55,568	40,696	44,024

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 0.81% to 7.71% per annum as of December 31, 2007 (2006: 0.53% to 6.54%) depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair value.

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

	Group		Company	
Bank loans	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Within one year	5,861	11,575	3,808	9,081
Between one to two years	424	6,781	242	3,765
Between two to five years	12,322	1,415	9,005	527
After five years	3,208	2,252	506	608
	21,815	22,023	13,561	13,981

	Group		Company	
Loans other than bank loans	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Within one year	6,339	9,032	5,221	7,983
Between one to two years	5,330	5,016	5,148	3,782
Between two to five years	7,576	9,034	7,149	8,253
After five years	10,828	11,136	10,494	10,730
	30,073	34,218	28,012	30,748

(Amounts in millions unless otherwise stated)

29 SHARE CAPITAL

	Group and Company	
	December 31, 2007	December 31, 2006
	RMB	RMB
Registered, issued and fully paid:		
State-owned shares	-	157,922
A Shares	161,922	-
H shares	21,099	21,099
	183,021	179,021

Number of shares of the Company (millions)	2007	2006
Beginning balance	179,021	179,021
Issuance of shares	4,000	-
Ending balance	183,021	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 yuan 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.

On November 5, 2007, the Company issued 4,000,000,000 new A shares at RMB 16.70 yuan per share and net proceeds to the Company amounted to approximately RMB 66,243 and the listing and trading of the A Shares on the Shanghai Stock Exchange commenced on November 5, 2007.

(Amounts in millions unless otherwise stated)

Following the issuance of the A shares, all the existing state-owned shares issued before November 5, 2007 held by CNPC have been registered with the China Securities Depository and Clearing Corporation Limited as A shares.

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

30 RESERVES

	Group		Company	
	2007	2006	2007	2006
	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)	(8,881)	(11,508)	(11,508)
Issuance of shares (Note 29)	62,243	-	62,243	-
Ending balance	53,362	(8,881)	50,735	(11,508)
Statutory Common Reserve Fund (note a)				
Beginning balance	89,928	48,736	78,828	41,301
Transfer from retained earnings	12,768	13,355	12,768	13,355
Transfer from Statutory Common Welfare Fund	-	27,837	-	24,172
Ending balance	102,696	89,928	91,596	78,828
Statutory Common Welfare Fund (note b)				
Beginning balance	-	27,837	-	24,172
Transfer from retained earnings	-	-	-	-
Transfer to Statutory Common Reserve Fund	-	(27,837)	-	(24,172)
Ending balance	-	-	-	-
Currency translation differences				
Beginning balance	(570)	(379)	-	-
Currency translation differences	(771)	(191)	-	-
Ending balance	(1,341)	(570)	-	-
Other reserves				
Beginning balance	(16,859)	(14,703)	(6,859)	(4,703)
Purchase of minority interest in subsidiaries (Note 19)	(113)	(2,156)	(117)	(2,156)
Fair value gain of available-for-sale financial assets	261	-	260	-
Ending balance	(16,711)	(16,859)	(6,716)	(6,859)
	217,952	143,564	215,561	140,407

(Amounts in millions unless otherwise stated)

(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 no longer required to allocate its net profit to the Statutory Common Welfare Fund 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 December 31, 2005 to the Statutory Common Reserve Fund.

(c) According to the relevant PRC regulations, the distributable reserve is the lower of the retained earnings computed under PRC accounting regulations and IFRS. As of December 31, 2007, the Company's distributable reserve amounted to RMB 228,016 which was computed under PRC accounting regulations (2006: under IFRS RMB 205,379).

(d) As of December 31, 2007, revaluation surpluses realised through the depreciation or disposal of revalued assets amounted to approximately RMB 61,121 (2006: RMB 57,832).

31 DEFERRED TAXATION

Deferred taxation is calculated on temporary differences under the liability method using a principal tax rate of 25% (2006: 33%).

The movements in the deferred taxation account are as follows:

	Group		Company	
	2007	2006	2007	2006
	RMB	RMB	RMB	RMB
At beginning of the year	19,583	20,759	6,480	9,125
Transfer to profit and loss account (Note 12)	820	(1,196)	1,200	(2,645)
Charge to equity	87	-	87	-
Consolidation of PetroKazakhstan Inc.	(174)	-	-	-
Transfer from subsidiaries	-	-	82	-
Currency translation differences	(111)	20	-	-
At end of the year	20,205	19,583	7,849	6,480

(Amounts in millions unless otherwise stated)

Deferred tax balances are attributable to the following items:

	Group		Company	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
	RMB	RMB	RMB	RMB
Deferred tax assets:				
Current:				
Provisions, primarily for receivables and inventories	5,391	7,107	3,583	4,684
Tax losses of subsidiaries	95	2,175	-	-
Non current:				
Shut down of manufacturing assets and impairment of long-term assets	3,172	4,342	2,798	3,498
Other	1,635	457	1,455	410
Total deferred tax assets	10,293	14,081	7,836	8,592
Deferred tax liabilities:				
Non current:				
Accelerated tax depreciation	30,435	33,398	15,649	14,877
Other	63	266	36	195
Total deferred tax liabilities	30,498	33,664	15,685	15,072
Net deferred tax liabilities	20,205	19,583	7,849	6,480

There were no material unrecognised tax losses at December 31, 2007.

32 ASSET RETIREMENT OBLIGATIONS

	Group		Company	
	2007	2006	2007	2006
	RMB	RMB	RMB	RMB
At beginning of the year	18,481	14,187	11,269	8,068
Liabilities incurred	4,818	3,589	3,239	2,863
Consolidation of PetroKazakhstan Inc.	385	-	-	-
Transfer from subsidiaries	-	-	196	-
Liabilities settled	(110)	(105)	(110)	(99)
Accretion expense (Note 10)	1,202	796	713	437
Currency translation differences	(15)	14	-	-
At end of the year	24,761	18,481	15,307	11,269

Asset retirement obligations are in relation to oil and gas properties (Note 16).

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

(Amounts in millions unless otherwise stated)

33 CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2007 RMB	2006 RMB
Profit for the year		155,229	149,397
Adjustments for:			
Taxation	12	49,152	49,776
Depreciation, depletion and amortisation		66,625	61,388
Capitalised exploratory costs charged to expense	16	9,161	9,494
Share of profit of associates and jointly controlled entities		(6,997)	(2,277)
Reversal of provision for impairment of receivables, net	7	(2,353)	(316)
Write down in inventories, net	7	55	140
Impairment of available-for-sale financial assets, net	7	-	32
Impairment of investments in associates and jointly controlled entities		5	-
Loss on disposal of property, plant and equipment	7	1,808	1,753
(Gain)/Loss on disposal of intangible and other assets		(2)	192
Profit on disposal of investments in associates and jointly controlled entities	17	(320)	(10)
Profit on disposal of available-for-sale financial assets	18	(142)	(3)
Dividend income	18	(111)	(208)
Interest income		(1,990)	(2,066)
Interest expense	10	3,595	3,220
Advance payments on long-term operating leases		(4,803)	(5,694)
Changes in working capital:			
Accounts receivable and prepaid expenses and other current assets		(16,498)	(3,115)
Inventories		(12,042)	(13,445)
Accounts payable and accrued liabilities		19,935	5,346
CASH GENERATED FROM OPERATIONS		260,307	253,604
Interest received		1,962	1,993
Interest paid		(4,154)	(3,700)
Income taxes paid		(54,367)	(53,795)
NET CASH PROVIDED BY OPERATING ACTIVITIES		203,748	198,102

34 PENSIONS

The Group participates in various employee retirement benefit plans (Note 3(u)). Expenses incurred by the Group in connection with the retirement benefit plans for the year ended December 31, 2007 amounted to RMB 5,744 (2006: RMB 4,645).

(Amounts in millions unless otherwise stated)

35 CONTINGENT LIABILITIES

(a) Bank and other guarantees

At December 31, 2007, the Group had contingent liabilities in respect of guarantees made to China Petroleum Finance Company Limited ("CP Finance", a subsidiary of CNPC) from which it is anticipated that no material liabilities will arise.

	December 31, 2007	December 31, 2006
	RMB	RMB
Guarantee of borrowings of associates provided by CP Finance	77	162
Guarantee of borrowings of third parties provided by a State-controlled bank	-	41
	77	203

(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 consolidated financial statements, that may have a material adverse effect on the financial position of the Group.

(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 outcome of such contingencies, lawsuits or other proceedings cannot be determined at present, the management of the Group believes that any resulting liabilities may 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 2000:

- 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

(Amounts in millions unless otherwise stated)

• 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, 2007, CNPC had obtained formal land use right certificates in relation to 27,554 out of the above-mentioned 28,649 parcels of land and 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 may not have a material adverse effect on 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 any resulting liabilities may not have a material adverse effect on the financial position of the Group.

36 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, 2007 and 2006 under non-cancellable operating leases are as follows:

	December 31, 2007	**December 31, 2006**
	RMB	**RMB**
First year	3,394	3,099
Second year	3,077	2,749
Third year	2,927	2,714
Fourth year	3,322	3,040
Fifth year	2,650	3,102
Thereafter	79,025	80,076
	94,395	94,780

(Amounts in millions unless otherwise stated)

(b) Capital commitments

	December 31, 2007	December 31, 2006
	RMB	RMB
Contracted but not provided for		
Oil and gas properties	26	273
Equipment and Machinery	11,345	8,658
Other	250	262
	11,621	9,193

(c) 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 660 for the year ended December 31, 2007 (2006: RMB 662).

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

	December 31, 2007
	RMB
2008	906
2009	906
2010	906
2011	906
2012	906

37 MAJOR CUSTOMERS

The Group's major customers are as follows:

	2007		2006	
	Revenue	Percentage to total revenue	Revenue	Percentage to total revenue
	RMB	%	RMB	%
China Petroleum & Chemical Corporation	50,292	6	44,028	6
CNPC and its subsidiaries	31,325	4	27,714	4
	81,617	10	71,742	10

38 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 companies 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.

The Company and CNPC entered into a Comprehensive Products and Services Agreement on March 10, 2000 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 not 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.

In addition to the related party information shown elsewhere in the consolidated 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:

(Amounts in millions unless otherwise stated)

(a) Bank deposits

	Note	December 31, 2007	December 31, 2006
		RMB	RMB
Bank deposits			
CP Finance	(i)	8,393	8,937
State-controlled banks and other financial institutions		66,611	37,744
		75,004	46,681

	Note	Year Ended December 31	
		2007	2006
		RMB	RMB
Interest income from bank deposits			
CP Finance	(i)	159	81
State-controlled banks and other financial institutions		1,024	1,804
		1,183	1,885

(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 unless otherwise stated)

(b) Sales of goods and services

	Year Ended December 31	
	2007	2006
	RMB	RMB
Sales of goods		
Associates and jointly controlled entities		
- Crude oil	2,374	5,023
- Refined products	18,628	19,779
- Chemical products	753	90
CNPC and its subsidiaries		
- Crude oil	1,766	1,546
- Refined products	16,806	16,847
- Chemical products	7,161	5,691
- Natural gas	1,835	1,346
- Other	339	277
Other state-controlled enterprises		
- Crude oil	47,597	39,632
- Refined products	58,903	68,370
- Chemical products	10,849	8,979
- Natural gas	9,882	7,713
	176,893	175,293

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

	Year Ended December 31	
	2007	2006
	RMB	RMB
Sales of services		
- CNPC and its subsidiaries	3,418	2,007
- Other state-controlled enterprises	8,497	7,761
	11,915	9,768

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 unless otherwise stated)

(c) Purchases of goods and services

	Notes	Year Ended December 31 2007 RMB	2006 RMB
Purchases of goods	(i)		
Associates and jointly controlled entities		29,239	9,868
Other state-controlled enterprises		58,726	50,995
Purchases of services			
Associates and jointly controlled entities		136	126
CNPC and its subsidiaries			
- Fees paid for construction and technical services	(ii)		
- Exploration and development services	(iii)	60,194	50,485
- Other construction and technical services	(iv)	37,063	32,256
- Fees for production services	(v)	38,395	32,730
- Social service charges	(vi)	2,229	2,301
- Ancillary service charges	(vii)	2,635	2,458
- Commission expense and other charges	(viii)	1,178	1,241
Other state-controlled enterprises	(ix)	3,546	7,703
		233,341	190,163

(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 not 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.

(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	
	2007	2006
	RMB	RMB
Purchases of assets		
Associates and jointly controlled entities	-	2
CNPC and its subsidiaries	2,395	1,795
Other state-controlled enterprises	5,840	6,617
	8,235	8,414

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

(Amounts in millions unless otherwise stated)

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

	December 31, 2007 RMB	December 31, 2006 RMB
Accounts receivable from related parties at the end of the year:		
Associates and jointly controlled entities	296	82
Fellow subsidiaries (CNPC Group)	3,796	599
Other state-controlled enterprises	1,910	1,566
	6,002	2,247
Less: Provision for impairment		
Associates and jointly controlled entities	-	(5)
Fellow subsidiaries (CNPC Group)	(189)	(232)
Other state-controlled enterprises	(708)	(861)
	(897)	(1,098)
	5,105	1,149
Prepayments and other receivables from related parties at the end of the year:		
Associates and jointly controlled entities	2,412	4,307
Parent (CNPC)	-	196
Fellow subsidiaries (CNPC Group)	10,335	7,220
Other state-controlled enterprises	6,809	4,202
	19,556	15,925
Less: Provision for impairment		
Associates and jointly controlled entities	(39)	(212)
Fellow subsidiaries (CNPC Group)	(22)	(4)
Other state-controlled enterprises	(79)	(299)
	(140)	(515)
	19,416	15,410
Accounts payable and accrued liabilities to related parties at the end of the year:		
Associates and jointly controlled entities	117	1,444
Parent (CNPC)	922	2,321
Fellow subsidiaries (CNPC Group)	32,154	26,046
Other state-controlled enterprises	7,141	5,462
	40,334	35,273

PETROCHINA COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
(Amounts in millions unless otherwise stated)

	Year Ended December 31	
	2007	2006
	RMB	RMB
Net changes in provision for impairment of accounts receivable from related parties charged/(credited) to profit and loss account:		
Associates and jointly controlled entities	(5)	5
Fellow subsidiaries (CNPC Group)	(32)	(11)
Other state-controlled enterprises	-	(52)
	(37)	(58)
Net changes in provision for impairment of prepayments and other receivables from related parties charged/(credited) to profit and loss account:		
Associates and jointly controlled entities	(173)	(20)
Fellow subsidiaries (CNPC Group)	18	(32)
Other state-controlled enterprises	(218)	12
	(373)	(40)

(f) Leases

		Year Ended December 31	
	Notes	2007	2006
		RMB	RMB
Advance operating lease payments paid to related parties:	(i)		
Parent (CNPC)		-	-
Other state-controlled enterprises		88	49
		88	49
Other operating lease payments paid to related parties:			
Parent (CNPC)	(ii)	2,292	2,276
Other state-controlled enterprises		21	16
		2,313	2,292

(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 unless otherwise stated)

	December 31, 2007	December 31, 2006
	RMB	RMB
Operating lease payable to related parties		
Parent (CNPC)	16	-
Other state-controlled enterprises	-	7
	16	7

(g) Loans

	Year Ended December 31	
	2007	2006
Loans to related parties	RMB	RMB
Loans to associates:		
Beginning of the year	1,800	1,640
Loans advanced during year	366	1,034
Loans repayments received	(322)	(884)
Interest charged	129	154
Interest received	(120)	(144)
End of the year	1,853	1,800

Loans to associates are included in prepaid expenses and other current assets (Note 24).

The loans to related parties are mainly with interest rates ranging from 5.20% to 8.60% per annum as of December 31, 2007 (2006: 9.07% to 9.36%).

(Amounts in millions unless otherwise stated)

		Year Ended December 31	
	Notes	2007	2006
Loans from related parties		RMB	RMB
Loans from CP Finance:	(i)		
Beginning of the year		27,184	27,319
Loans received during year		7,238	7,408
Loans repayments paid		(9,575)	(7,350)
Interest charged		1,377	1,327
Interest paid		(1,388)	(1,305)
Currency translation differences		(343)	(215)
End of the year		24,493	27,184
Loans from state-controlled banks and other financial institutions:	(ii)		
Beginning of the year		32,810	31,178
Loans received during year		38,320	28,457
Loans repayments paid		(36,335)	(26,576)
Interest charged		1,869	1,598
Interest paid		(1,875)	(1,626)
Currency translation differences		(526)	(221)
End of the year		34,263	32,810
Loans from other related parties:	(iii)		
Beginning of the year		5	62
Loans repayments paid		-	(57)
Interest charged		-	2
Interest paid		-	(2)
End of the year		5	5

(i) The loans from CP Finance are mainly with interest rates ranging from 4.46% to 7.47% per annum as of December 31, 2007 (2006: 4.46% to 6.06%), with maturities through 2032.

(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, 2007 (2006: zero to 8.66%), with maturities through 2038.

(iii) The loans from other related parties are mainly with interest rate at 6.32% per annum as of December 31, 2007 (2006: 6.32%), and with no fixed repayment terms.

The secured loans from related parties amounted to RMB Nil at December 31, 2007 (December 31, 2006: RMB 23).

The guaranteed loans amounted to RMB 528 at December 31, 2007 (December 31, 2006: RMB 597). Borrowings of RMB 498 are from non-related parties, long-term and guaranteed by CNPC and borrowings of RMB 30 are from non-related parties, short-term and guaranteed by the Company and third parties.

Information on loans from related parties are included in Note 28.

(Amounts in millions unless otherwise stated)

(h) Key management compensation

	Year Ended December 31	
	2007	2006
	RMB'000	RMB'000
Fee for key management personnel		
- Directors and supervisors	1,504	1,473
Salaries, allowances and other benefits (i)		
- Directors and supervisors	3,767	3,937
- Other key management	5,002	2,447
Contribution to retirement benefit scheme		
- Directors and supervisors	136	165
- Other key management	209	133
	10,618	8,155

(i) Salaries, allowances and other benefits do not include deferred payments made to directors and other key management in accordance with the relevant PRC government regulations, in respect of 2004 to 2006 in the amount of RMB 5,143 thousand.

As at December 31, 2007, none of the key management personnel had exercised the share appreciation rights. The liability for the units awarded to key management personnel amounted to approximately RMB 395 at December 31, 2007 (December 31, 2006: RMB 329).

(i) Contingent liabilities

The Group disclosed in Note 35 its 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 certain banks for the borrowings of subsidiaries and associates.

As at December 31, 2007, the time deposits with maturities over one year of RMB 5,053 (December 31, 2006: RMB 2,499), were secured including for the borrowings of subsidiaries of RMB 3,287 (December 31, 2006: RMB 312) and for the borrowings of associates of RMB 1,757 (December 31, 2006: RMB 2,187).

39 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 sale 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 overseas 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, 2007 and 2006 is presented below:

(Amounts in millions unless otherwise stated)

Primary reporting format – business segments

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	484,547	246,828	79,964	75,432	638,616	1,525,387
Elimination of intersegment balances						(686,180)
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	181,542	116,002	27,092	43,616	170,152	538,404
Other liabilities						43,517
Elimination of intersegment balances						(327,349)
Total liabilities						254,572

(Amounts in millions unless otherwise stated)

Primary reporting format – business segments (continued)

Year Ended December 31, 2007	Exploration and Production	Refining and Marketing	Chemicals and Marketing	Natural Gas and Pipeline	Other	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Turnover (including intersegment)	468,175	670,844	102,718	50,066	1,718	1,293,521
Less: Intersegment sales	(376,451)	(63,766)	(11,009)	(6,610)	(648)	(458,484)
Turnover from external customers	91,724	607,078	91,709	43,456	1,070	835,037
Depreciation, depletion and amortisation	(42,945)	(11,184)	(5,923)	(5,926)	(647)	(66,625)
Segment result	220,430	9,341	13,256	13,057	(3,388)	252,696
Other costs	(13,843)	(30,021)	(5,425)	(562)	(2,990)	(52,841)
Profit/(loss) from operations	206,587	(20,680)	7,831	12,495	(6,378)	199,855
Finance costs						(2,471)
Share of profit of associates and jointly controlled entities	6,460	477	41	2	17	6,997
Profit before taxation						204,381
Taxation						(49,152)
Profit for the year						155,229
Interest income (including intersegment)	7,346	2,021	804	122	8,846	19,139
Less: Intersegment interest income						(17,149)
Interest income from external entities						1,990
Interest expense (including intersegment)	(7,492)	(4,695)	(901)	(1,720)	(5,936)	(20,744)
Less: Intersegment interest expense						17,149
Interest expense to external entities						(3,595)
Segment assets	548,895	274,435	94,976	80,252	819,153	1,817,711
Elimination of intersegment balances						(784,115)
Investments in associates and jointly controlled entities	21,339	4,973	138	17	68	26,535
Total assets						1,060,131
Segment capital expenditure - for property, plant and equipment	134,256	26,546	8,165	11,003	1,613	181,583
Segment liabilities	225,483	145,263	33,389	39,790	188,774	632,699
Other liabilities						43,013
Elimination of intersegment balances						(391,928)
Total liabilities						283,784

(Amounts in millions unless otherwise stated)

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

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

Note (c) – Segment results for the years ended December 31, 2007 and December 31, 2006 include impairment for property, plant and equipment (Note 16).

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.

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
Year Ended December 31,	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
PRC	807,706	665,267	979,124	811,919	171,510	142,371
Other (Exploration and Production)	27,331	23,711	81,007	60,244	10,073	6,375
	835,037	688,978	1,060,131	872,163	181,583	148,746

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on March 19, 2008 and will be submitted to the shareholders for approval at the annual general meeting to be held on May 15, 2008.

PETROCHINA COMPANY LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)
(Amounts in millions unless otherwise stated)

In accordance with US Statement of Financial Accounting Standard No. 69, Disclosures about Oil and Gas Producing Activities, this section provides supplemental information on oil and gas exploration and producing activities of the Company and its subsidiaries (the "Group") and also the Group's investments that are accounted for using the equity method of accounting.

Results of Operations

	Year Ended December 31	
	2007	2006
	RMB	RMB
Sales and other operating revenues		
Sales to third parties	91,724	81,721
Intersegment sales	336,999	313,654
	428,723	395,375
Production costs excluding taxes	(63,118)	(54,800)
Exploration expenses	(20,648)	(18,822)
Depreciation, depletion and amortisation	(36,400)	(31,540)
Taxes other than income taxes	(56,474)	(41,354)
Accretion expense	(1,202)	(796)
Profit before taxation	250,881	248,063
Taxation	(57,386)	(65,554)
Results of operations from producing activities	193,495	182,509
Share of profit from producing activities of associates and jointly controlled entities	5,293	4,424

Capitalised Costs

	December 31, 2007	December 31, 2006
	RMB	RMB
Property costs	-	-
Producing assets	497,117	425,172
Support facilities	171,590	150,149
Construction-in-progress	43,070	25,461
Total capitalised costs	711,777	600,782
Accumulated depreciation, depletion and amortisation	(264,992)	(233,677)
Net capitalised costs	446,785	367,105
Share of net capitalised costs of associates and jointly controlled entities	14,252	25,136

(Amounts in millions unless otherwise stated)

Costs Incurred in Property Acquisitions, Exploration and Development Activities

	Year Ended December 31	
	2007	2006
	RMB	RMB
Property acquisition costs	-	-
Exploration costs	36,046	30,567
Development costs	96,449	79,902
Total	132,495	110,469
Share of costs of property acquisition, exploration, and development of associates and jointly controlled entities	2,911	4,371

Proved Reserve Estimates

Oil and gas proved reserves cannot be measured exactly. Reserve estimates are based on many factors related to reservoir performance that require evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgement. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas 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. Proved developed reserves are those reserves, which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are expected to be recovered from new wells on undrilled acreage or from existing wells where relatively major expenditure is required.

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 issued production licenses effective from March 2000 to the Group for all of its crude oil and natural gas reservoirs with terms similar with the projected productive 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 limit 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.

PETROCHINA COMPANY LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)
(Amounts in millions unless otherwise stated)

Proved reserve estimates as of December 31, 2007 and 2006 were based on reports prepared by DeGolyer and MacNaughton and Gaffney, Cline & Associates, independent engineering consultants. The Group's reserve estimates were prepared for each oil and gas field within oil and gas regions and adjusted for the estimated effects of using prices and costs prevailing at the end of the period. The Company's reserve estimates include only crude oil and natural gas, which the Company believes can be reasonably produced within the current terms of production licenses.

Estimated quantities of net proved oil and condensate and natural gas reserves and of changes in net quantities of proved developed and undeveloped reserves for each of the period indicated are as follows:

	Crude Oil and Condensate (millions of barrels)	Natural Gas (billions of cubic feet)
Proved developed and undeveloped		
Reserves at January 1, 2006	11,536	48,123
Changes resulting from:		
Revisions of previous estimates	197	686
Improved recovery	81	-
Extensions and discoveries	635	6,248
Production	(831)	(1,588)
Reserves at December 31, 2006	11,618	53,469
Changes resulting from:		
Revisions of previous estimates	84	(1,062)
Improved recovery	79	-
Extensions and discoveries	764	6,331
Production	(839)	(1,627)
Reserves at December 31, 2007	11,706	57,111
Proved developed reserves at:		
December 31, 2006	9,185	22,564
December 31, 2007	9,047	26,047
Proportional interest in proved reserves of associates and jointly controlled entities at:		
December 31, 2006	543	105
December 31, 2007	141	79

At December 31, 2007, 11,062 million barrels of crude oil and condensate and 56,510.0 billion cubic feet of natural gas proved developed and undeveloped reserves are located within China, and 644 million barrels of crude oil and condensate and 601.0 billion cubic feet of natural gas proved developed and undeveloped reserves are located overseas.

(Amounts in millions unless otherwise stated)

Standardised Measure

The following disclosures concerning the standardised measure of future cash flows from proved oil and gas reserves are presented in accordance with the US Statement of Financial Accounting Standards No. 69, Disclosures about Oil and Gas Producing Activities. The amounts shown are based on prices and costs at the end of each period, currently enacted tax rates and a 10 percent annual discount factor. Since prices and costs do not remain static, and no price or cost changes have been considered, the results are not necessarily indicative of the fair market value of estimated proved reserves, but they do provide a common benchmark which may enhance the users' ability to project future cash flows.

The standardised measure of discounted future net cash flows related to proved oil and gas reserves at the end of each of the two years in the period ended December 31, 2006 and 2007 is as follows:

	RMB
At December 31, 2006	
Future cash inflows from sales of oil and gas	5,611,306
Future production costs	(1,620,761)
Future development costs	(296,175)
Future income tax expense	(1,202,980)
Future net cash flows	2,491,390
Discount at 10% for estimated timing of cash flows	(1,336,045)
Standardised measure of discounted future net cash flows	1,155,345
At December 31, 2007	
Future cash inflows from sales of oil and gas	8,714,483
Future production costs	(3,049,226)
Future development costs	(437,946)
Future income tax expense	(1,569,898)
Future net cash flows	3,657,413
Discount at 10% for estimated timing of cash flows	(1,835,343)
Standardised measure of discounted future net cash flowss	1,822,070
Share of standardised measure of discounted future net cash flows of associates and jointly controlled entities:	
At December 31, 2006	59,825
At December 31, 2007	33,543

Future net cash flows were estimated using period-end prices and costs, and currently enacted tax rates.

PETROCHINA COMPANY LIMITED
SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)
(Amounts in millions unless otherwise stated)

Changes in the standardised measure of discounted net cash flows for the Group for each of the two years ended December 31, 2006 and 2007 are as follows:

	Year Ended December 31	
	2007	2006
	RMB	RMB
CHANGES IN STANDARDISED MEASURE OF DISCOUNTED FUTURE CASH FLOWS		
Beginning of the year	1,155,345	1,386,194
Sales and transfers of oil and gas produced, net of production costs	(309,269)	(328,001)
Net changes in prices and production costs and other	804,330	(317,593)
Extensions, discoveries and improved recovery	256,476	166,249
Development costs incurred	(39,031)	(47,551)
Revisions of previous quantity estimates	(3,567)	32,306
Accretion of discount	171,389	200,771
Net change in income taxes	(213,603)	62,970
End of the year	1,822,070	1,155,345