



中國石油天然氣股份有限公司

PETROCHINA COMPANY LIMITED

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

(Hong Kong Stock Exchange Stock Code: 857

Shanghai Stock Exchange Stock Code: 601857)

Results Announcement for the year ended December 31, 2007 (Summary of the 2007 Annual Report)

1 Important Notice

1.1 The Board of Directors of PetroChina Company Limited (the “Company”), the Supervisory Committee and the Directors, Supervisors and Senior Management of the Company warrant that there are no material omissions from, or misrepresentation or misleading statements contained in this announcement, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this announcement.

This announcement is a summary of the 2007 Annual Report. Full version of the 2007 Annual Report can be downloaded from the websites of the Shanghai Stock Exchange (website: <http://www.sse.com.cn>), The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) (website: <http://www.hkex.com.hk>) and the Company (website: <http://www.petrochina.com.cn>). Investors should read the 2007 Annual Report carefully for more details.

1.2 The 2007 Annual Report has been approved unanimously at the tenth meeting of the Third Session of the Board. No Director has any doubt as to, or the inability to warrant, the truthfulness, accuracy and completeness of the 2007 Annual Report.

1.3 Mr Duan Wende, Director of the Company, was absent from the tenth meeting of the Third Session of the Board. Mr Duan Wende authorised in writing Mr Zhou Jiping to attend this meeting by proxy and to exercise his voting rights on his behalf.

1.4 The financial statements of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2007 prepared in accordance with 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”) and the International Financial Reporting Standards (“IFRS”) have been audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers, respectively, and both firms have issued unqualified opinions on the financial statements.

1.5 Mr Jiang Jiemin, Chairman of the Board and President of the Company, and Mr Zhou Mingchun, Chief Financial Officer and Head of the Finance Department of the Company, warrant the truthfulness and completeness of the financial statements in the 2007 Annual Report.

2 Basic Information of the Company

2.1 Basic Information of the Company

Stock name	PetroChina	PetroChina	PetroChina
Stock code	857	PTR	601857
Place of listing	Hong Kong Stock Exchange	The New York Stock Exchange, Inc	Shanghai Stock Exchange
Registered address and office address	World Tower, 16 Andelu, Dongcheng District, Beijing, PRC		
Postal code	100011		
Website	http://www.petrochina.com.cn		
Email address	xwzou@petrochina.com.cn		

2.2 Contact Persons of the Company and Means of Communication

	Secretary to the Board of Directors	Representative on Securities Matters	Representative of the Hong Kong Representative Office
Name	Li Huaqi	Liang Gang	Mao Zefeng
Address	World Tower, 16 Andelu, Dongcheng District, Beijing, PRC		Suite 3606, Tower 2, Lippo Centre, 89 Queensway, Hong Kong
Postal code	100011		
Telephone	86 (10)8488 6270	86 (10)8488 6959	(852) 2899 2010
Facsimile	86 (10)8488 6260	86 (10)8488 6260	(852) 2899 2390
Email address	xwzou@petrochina.com.cn	liangg@petrochina.com.cn	hko@petrochina.com.hk

3 Summary of Accounting Data and Financial Indicators

3.1 Key Accounting Data and Financial Indicators Prepared under IFRS

Unit: RMB Million

Items	Year ended December 31, 2007	Year ended December 31, 2006	Year-on-year change (%)	Year ended December 31, 2005
Turnover	835,037	688,978	21.2	552,229
Profit attributable to equity holders of the Company	145,625	142,224	2.4	133,362
Cash flows from operating activities	203,748	198,102	2.9	203,885
Basic and diluted earnings per share for profit attributable to equity holders of the Company (RMB/share)	0.81	0.79	2.0	0.75
Cash flows from operating activities per share (RMB/share)	1.13	1.11	1.8	1.15
Items	As at December 31, 2007	As at December 31, 2006	Year-on-year change (%)	As at December 31, 2005
Total assets	1,060,131	872,163	21.6	778,067
Equity attributable to equity holders of the Company	733,405	586,677	25.0	515,389
Net assets per share (RMB/share)	4.01	3.28	22.3	2.88

3.2 Key Accounting Data and Financial Indicators Prepared under CAS

3.2.1 Key accounting data

Unit: RMB Million

Items	Year ended December 31, 2007	Year ended December 31, 2006	Year-on-year change (%)	Year ended December 31, 2005
Operating income	835,037	688,978	21.2	552,229
Operating profit	193,958	192,325	0.8	189,369
Profit before taxation	192,825	189,790	1.6	185,029
Net profit attributable to equity holders of the Company	134,574	136,229	(1.2)	127,867
Net profit after deducting non-recurring profit/loss items attributable to equity holders of the Company	136,025	138,277	(1.6)	127,660
Net cash flows from operating activities	210,819	205,442	2.6	209,548
Items	As at December 31, 2007	As at December 31, 2006	Year-on-year change (%)	As at December 31, 2005
Total assets	994,092	815,144	22.0	725,414
Equity attributable to equity holders of the Company	677,367	541,467	25.1	476,238

3.2.2 Key financial indicators

Unit: RMB

Items	Year ended December 31, 2007	Year ended December 31, 2006	Year-on-year change (%)	Year ended December 31, 2005
Basic earnings per share	0.75	0.76	(1.3)	0.72
Diluted earnings per share	0.75	0.76	(1.3)	0.72
Basic earnings per share after deducting non-recurring profit/loss items	0.76	0.77	(1.3)	0.72
Fully diluted return on net assets (%)	19.9	25.2	(5.3 percentage point)	26.8
Weighted average return on net assets (%)	22.8	26.3	(3.5 percentage point)	28.9
Fully diluted return on net assets after deducting non- recurring profit/loss items (%)	20.1	25.5	(5.4 percentage point)	26.8
Weighted average return on net assets after deducting non- recurring profit/loss items (%)	23.0	26.7	(3.7 percentage point)	28.8
Net cash flows per share from operating activities	1.17	1.15	1.7	1.19
Item	As at December 31, 2007	As at December 31, 2006	Year-on-year change (%)	As at December 31, 2005
Net assets per share attributable to equity holders of the Company	3.70	3.02	22.5	2.66

3.2.3 Non-recurring profit/loss item

Applicable Not applicable

Unit: RMB Million

Non-recurring profit/loss items	Year ended December 31, 2007(profit)/loss
Loss on disposal of non-current assets*	753
Other non-operating net income and expenses	1,371
Government grants	(388)
Tax effect of non-recurring profit/loss items	(443)
Total	1,293

* Excluding exploratory dry holes

3.2.4 Items to which fair value measurement is applied

Applicable Not applicable

3.3 Differences Between CAS and IFRS

Applicable Not applicable

Unit: RMB Million

	CAS	IFRS
Net profit (including minority interest) for the year ended December 31, 2007	143,494	155,229
Equity (including minority interest) as at December 31, 2007	715,071	776,347
Analysis of differences		See Section 9.2.3 for details

4 Changes in Share Capital and Information on Shareholders

4.1 Changes in Shareholdings

Unit: Shares

	Pre-movement		Increase/decrease (+/-)					Post-movement	
	Numbers of shares	Percentage (%)	New Issue	Bonus Issue	Conversion from Reserves	Others	Sub-total	Numbers of shares	Percentage (%)
I Shares with selling restrictions	157,922,077,818	88.21	+1,000,000,000	-	-	-	+1,000,000,000	158,922,077,818	86.83
1. State-owned shares	157,922,077,818	88.21	-	-	-	-	-	157,922,077,818	86.29
2. Shares held by state-owned companies	-	-	-	-	-	-	-	-	-
3. Shares held by other domestic investors	-	-	+1,000,000,000	-	-	-	+1,000,000,000	1,000,000,000	0.54
of which:									
Shares held by companies other than state-owned companies	-	-	+1,000,000,000	-	-	-	+1,000,000,000	1,000,000,000	0.54
Shares held by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Shares held by foreign investors	-	-	-	-	-	-	-	-	-
II Shares without selling restrictions	21,098,900,000	11.79	+3,000,000,000	-	-	-	+3,000,000,000	24,098,900,000	13.17
1. RMB-denominated ordinary shares	-	-	+3,000,000,000	-	-	-	+3,000,000,000	3,000,000,000	1.64
2. Shares traded in non-RMB currencies and listed domestically	-	-	-	-	-	-	-	-	-
3. Shares listed overseas	21,098,900,000	11.79	-	-	-	-	-	21,098,900,000	11.53
4. Others	-	-	-	-	-	-	-	-	-
III Total Shares	179,020,977,818	100.00	+4,000,000,000	-	-	-	+4,000,000,000	183,020,977,818	100.00

Changes in Shares with Selling Restrictions

Unit: Shares

Name of Shareholders	Number of shares with selling restrictions at the beginning of 2007	Number of shares with selling restrictions expired in 2007	Number of additional shares with selling restrictions in 2007	Number of shares with selling restrictions at the end of 2007	Reasons for selling restrictions	Expiry date of selling restrictions
China National Petroleum Corporation ("CNPC")	157,922,077,818	0	0	157,922,077,818	In October 2007, the Company offered its RMB-denominated ordinary shares (A shares) to the public for the first time. At that time, CNPC undertook that "for a period of 36 months commencing from the date of listing of the A shares of the Company on the Shanghai Stock Exchange, it will not transfer or entrust others for the management of the A shares which it holds, or allow such shares to be repurchased by the Company. However, certain shares held by CNPC, which may be subsequently listed on overseas stock exchanges after obtaining necessary approvals in the PRC, are not subject to the restriction of the 36-month lock-up period."	November 5, 2010
Shares placed off-line	0	0	1,000,000,000	1,000,000,000	In October 2007, the Company offered its RMB-denominated ordinary shares (A shares) to the public for the first time. Shares that have been placed with target places off-line are subject to a lock-up period of three months from the date of listing of the shares on the Shanghai Stock Exchange.	February 5, 2008
Total	157,922,077,818	0	1,000,000,000	158,922,077,818	-	-

4.2 Number of Shareholders and Their Shareholdings

The number of shareholders of the Company as at December 31, 2007 was 1,883,990, including 1,879,207 holders of A shares and 4,783 holders of H shares (including holders of the American Depositary Shares). The public float of the Company satisfied the requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

4.2.1 Shareholdings of the top ten shareholders

Unit: Shares

Name of shareholders	Nature of shares	Percentage of shareholding (%)	Number of shares held	Number of shares with selling restrictions	Number of shares pledged or subject to lock-ups
CNPC ⁽¹⁾	State-owned shares	86.29	157,922,077,818	157,922,077,818	0
HKSCC Nominees Limited ⁽²⁾	H shares	11.44	20,937,754,152	0	0
China Life Insurance (Group) Company- Traditional- Ordinary Insurance Product ⁽³⁾	A shares	0.031	56,797,000	25,069,000	0
China Life Insurance Company Limited - Dividends - Personal Dividends - 005L - FH002 Shanghai ⁽³⁾	A shares	0.016	30,238,570	25,069,000	0
China Life Insurance Company Limited - Traditional - Ordinary Insurance Product - 005L - CT001 Shanghai ⁽³⁾	A shares	0.014	25,069,000	25,069,000	0
China Life Insurance Company Limited - Dividends - Group Dividends - 005L - FH001 Shanghai ⁽³⁾	A shares	0.014	25,069,000	25,069,000	0
Ping An Life Insurance Company of China, Ltd. - Traditional - Ordinary Insurance Products ⁽³⁾	A shares	0.014	25,069,000	25,069,000	0
New China Life Insurance Company Limited-Dividends-Group Dividends-018L FH001 Shanghai ⁽³⁾	A shares	0.014	25,069,000	25,069,000	0
Ping An Life Insurance Company of China, Ltd. - Proprietary Funds ⁽³⁾	A shares	0.014	25,069,000	25,069,000	0
Ping An Life Insurance Company of China, Ltd.-Dividends- Personal Insurance Dividends ⁽³⁾	A shares	0.014	25,069,000	25,069,000	0

Note 1: CNPC is a substantial shareholder within the meaning of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "Securities and Futures Ordinance") whose interest is recorded in the register of interests in shares and short positions kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

Note 2: HKSCC Nominees Limited is a subsidiary of the Hong Kong Stock Exchange and its principal business is to act as nominee on behalf of shareholders.

Note 3: Places placed with A shares of the Company off-line who became one of the top ten shareholders of the Company shall not trade or transfer the shares held by them within three months commencing from November 5, 2007.

4.2.2 Shareholdings of top ten shareholders of shares without selling restrictions

			Unit: Shares
Ranking	Name of shareholders	Number of shares held	Types of shares
1	HKSCC Nominees Limited	20,937,754,152	H shares
2	China Life Insurance (Group) Company - Traditional - Ordinary Insurance Products	31,728,000	A shares
3	Bank of China – Shanghai and Shenzhen 300 Index Jiashi Securities Investment Fund	14,035,426	A shares
4	China Construction Bank – Boshi Yufu Securities Investment Fund	12,626,642	A shares
5	China Pacific Insurance (Group) Co., Ltd. – Group Level – Proprietary Funds – 012G – ZY001 Shanghai	7,387,982	A shares
6	Ling Foo Sang and Wong Ngar Kum	6,912,000	H shares
7	Tongde Securities Investment Fund	6,906,951	A shares
8	Baosteel Co., Ltd.	6,440,000	A shares
9	Sinochem Corporation	5,819,000	A shares
10	China Life Insurance Company Limited – Dividends – Personal Dividends – 005L – FH002 Shanghai	5,169,570	A shares

Statement on the connection or activities acting in concert among the above-mentioned shareholders: Except for China Life Insurance (Group) Company-Traditional-Ordinary Insurance Products, China Life Insurance Company Limited - Dividends - Personal Dividends-005L-FH002 Shanghai, China Life Insurance Company Limited- Traditional-Ordinary Insurance Product-005L-CT001 Shanghai and China Life Insurance Company Limited-Dividends-Group Dividends-005L-FH001 Shanghai, all of which are under the management of China Life Insurance Asset Management Co., Ltd and Ping An Life Insurance Company of China, Ltd.-Traditional-Ordinary Insurance Products, Ping An Life Insurance Company of China, Ltd.-Proprietary Funds and Ping An Life Insurance Company of China, Ltd.-Dividends-Personal Insurance Dividends, all of which are under the management of Ping An Asset Management Co. Ltd., the Company is not aware of any connection among or between the top ten shareholders and top ten shareholders of shares without selling restrictions or that they are persons acting in concert as provided for in the Measures for the Administration of Acquisitions by Listed Companies.

4.2.3 Shareholdings of Substantial Shareholders of H Shares

As at December 31, 2007, according to the register of interests in shares and short positions kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance, the person in the following table and note has an interest or short position in the H shares of the Company:

Name of shareholder	Number of shares	Percentage of such shares in that class of the issued share capital (%)	Percentage of total share capital (%)
	1,089,453,631 (L)	5.16 (L)	0.60
UBS AG (Note)	414,468,390 (S)	1.96 (S)	0.23

Note: UBS AG, through various wholly-owned subsidiaries, has an interest in 1,089,453,631 H shares of the Company.

As at December 31, 2007, save as disclosed above, no person (other than a Director, Supervisor or senior management of the Company) has an interest or short position in the H shares of the Company according to the register of interests in shares and short positions kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

4.3 Information on Controlling Shareholder and the Ultimate Controller

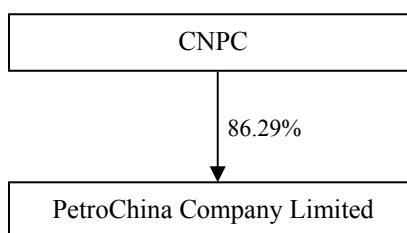
4.3.1 Change in the controlling shareholders and the ultimate controller during the reporting period

Applicable Not applicable

4.3.2 Information on controlling shareholder and the ultimate controller

The controlling shareholder of the Company is CNPC which was established in July 1998. CNPC is a petroleum and petrochemical conglomerate that was formed in the wake of the restructuring launched by the State Council to restructure the predecessor of CNPC, China National Petroleum Company (中國石油天然氣總公司). CNPC is also a state-authorized investment corporation and state-owned enterprise and its registered capital is RMB240,440.02 million. Its legal representative is Mr Jiang Jiemin. CNPC is an integrated energy corporation with businesses covering oil and gas exploration and development, refining and petrochemical, oil product marketing, oil and gas storage and transportation, oil trading, engineering and technical services and petroleum equipment manufacturing. CNPC is the ultimate controller of the Company.

4.3.3 The equity interest structure and controlling relationship between the Company and the ultimate controller



5 Directors, Supervisors and Senior Management

5.1 Information on the Changes in the Shareholding in the Company Held by and Remuneration of the Directors, Supervisors and Senior Management

5.1.1 Information on current Directors

Name	Gender	Age	Position	Term	Remuneration received from the Company in 2007 (RMB'000)	Whether received remuneration from offices held in CNPC	Number of Shares held in the Company	
							As at December 31, 2006	As at December 31, 2007
Jiang Jiemin ⁽¹⁾	M	52	Chairman and President	2007.05-2010.05	916	No	0	0
Duan Wende ⁽¹⁾	M	56	Executive Director/ Senior Vice President	2007.05-2010.05	824	No	0	0
Zheng Hu	M	61	Non-Executive Director	2006.05-2009.05	-	Yes	0	0
Zhou Jiping	M	55	Non-Executive Director	2007.05-2010.05	-	Yes	0	0
Wang Yilin	M	51	Non-Executive Director	2005.11-2008.11	-	Yes	0	0
Zeng Yukang	M	57	Non-Executive Director	2005.11-2008.11	-	Yes	0	0
Gong Huazhang	M	61	Non-Executive Director	2005.11-2008.11	-	Yes	0	0
Jiang Fan	M	44	Non-Executive Director	2005.11-2008.11	499	No	0	0
Chee-Chen Tung	M	65	Independent Non-Executive Director	2005.11-2008.11	264	No	0	0
Liu Hongru	M	77	Independent Non-Executive Director	2005.11-2008.11	349	No	0	0
Franco Bernabè	M	59	Independent Non-Executive Director	2006.05-2009.05	257	No	0	0

5.1.2 Information on current Supervisors

Name	Gender	Age	Position	Term	Remuneration received from the Company in 2007 (RMB'000)	Whether received remuneration from offices held in CNPC	Number of Shares held in the Company	
							As at December 31, 2006	As at December 31, 2007
Wang Fucheng	M	57	Chairman of Supervisory Committee	2005.11-2008.11	-	Yes	0	0
Wen Qingshan	M	49	Supervisor	2005.11-2008.11	-	Yes	0	0
Sun Xianfeng	M	55	Supervisor	2007.05-2010.05	-	Yes	0	0
Zhang Jinzhu	M	59	Supervisor	2007.05-2010.05	333	No	0	0
Qin Gang	M	54	Supervisor appointed by employees' representatives	2005.11-2008.11	469	No	0	0
Li Yongwu	M	63	Independent Supervisor	2005.11-2008.11	315	No	0	0
Wu Zhipan	M	51	Independent Supervisor	2005.11-2008.11	319	No	0	0

5.1.3 Other members of the Senior Management

Name	Gender	Age	Position	Term	Remuneration received from the Company in 2007 (RMB'000)	Whether received remuneration from offices held in CNPC	Number of Shares held in the Company	
							As at December 31, 2006	As at December 31, 2007
Liao Yongyuan ⁽¹⁾	M	45	Vice President	2005.11-	712	No	0	0
Jia Chengzao ⁽¹⁾	M	59	Vice President	2005.11-	667	No	0	0
Hu Wenrui ⁽¹⁾	M	58	Vice President	2005.11-	667	No	0	0
Sun Longde	M	45	Vice President	2007.06-	493	No	0	0
Shen Diancheng	M	48	Vice President	2007.06-	457	No	0	0
Liu Hongbin	M	44	Vice President	2007.06-	269	No	0	0
Zhou Mingchun	M	40	Chief Financial Officer	2007.06-	425	No	0	0
Li Hualin	M	45	Vice President	2007.11-	-	No	0	0
Lin Aiguo	M	49	Chief Engineer	2007.06-	422	No	0	0
Li Huaiqi ⁽¹⁾	M	58	Secretary to the Board of Directors	2001.08-	667	No	0	0

Note 1: Remuneration excludes the deferred payment paid by the Company to the relevant Directors and senior management of the Company in respect of their salaries from 2004 to 2006 in the aggregate amount of RMB3,740,000 pursuant to the relevant provisions of the PRC Government.

Each member of the senior management of the Company (including the executive Directors and Supervisors) has entered into a performance appraisal agreement with the Company. The remuneration policy of the senior management of the Company links the financial interest of the senior management with the operating results of the Company and the performance of the Company's shares in the market.

6 Directors' Report

6.1 Discussion and Analysis of the Overall Operations During the Reporting Period

6.1.1 Review of Results of Operations

In 2007, faced with new changes and new trends in the macro environment both domestically and globally, the Company upheld the guiding principle of scientific development and implemented firmly the three main strategies in the areas of resources, marketing and internationalisation of operations. The Company optimised production arrangements and strengthened operations and management. The Company's production and operating activities were conducted smoothly and its principal operations continued to expand in scale. Safety production and environmental protection improved steadily. The overall business strengths of the Company were enhanced markedly.

1. Market Review

(1) Crude Oil Market Review

In 2007, on the whole, international crude oil prices continued to soar. In particular, since September 2007, oil prices broke the US\$80 per barrel and US\$90 per barrel marks, reaching nearly US\$100 per barrel by the end of the year. In general, market considered the surge in the crude oil prices was primarily due to factors including strong growth in demand, a decline in crude oil inventories, speculative activities, geopolitical instabilities in certain oil producing countries and continued weakening of the US dollars. The annual average prices for WTI, Brent and Minas crude oil were US\$72.16, US\$72.38 and US\$73.40 per barrel, respectively, representing an increase of US\$6.12, US\$7.32 and US\$8.16 per barrel, respectively, over the annual average prices in 2006. Corresponding to the rise in international crude oil prices, the average price for domestic crude oil in 2007 was higher than that of 2006.

According to the relevant statistics, domestic crude oil imports continued to increase in 2007 by 14.4% to a net total of 159 million tons compared with the previous year. Domestic crude oil output and the amount of crude oil processed reached 186 million tons and 306 million tons, respectively.

(2) Refined Products Market Review

In 2007, domestic refined product prices were still under the macro economic controls of the PRC Government, resulting in such prices were lower than the prices in the international market. Annual average ex-factory prices of domestic gasoline and diesel were RMB5,071 per ton and RMB4,653 per ton respectively, being RMB1,225 and RMB1,513 lower than the CIF per ton prices quoted in the Singapore market, respectively, while the maximum price difference reaching over RMB2,000 per ton in 2007. During the second half of 2007, international crude

oil prices rocketed and as a result, domestic refineries incurred heavy losses in processing. Production ceased in certain local refineries. Supply in the refined products market was once very tight. On November 1, 2007, the PRC Government raised the ex-factory prices of gasoline, diesel and aviation fuel by RMB500 per ton. Balance of demand and supply was basically restored after such price increase.

According to the relevant information, nominal consumption of domestic refined products increased by 6.9% to 186 million tons in 2007.

(3) Chemical Products Market Review

The PRC economy maintained steady and rapid growth in 2007 with an increase in the GDP of 11.4%. The rapid growth of the PRC economy has created a steady increase in the domestic demand for petrochemical products, including a 10.6% growth in the nominal consumption of plastic materials. Notwithstanding an increase in the production of petrochemical products in 2007 as a result of the commencement of production by certain newly installed facilities, amongst which the production capacity of polyethylene and polypropylene was increased by approximately 15% and 18% respectively as compared with those of the previous year, the overall increase in the supply of petrochemical products was moderate and limited and the supply remained relatively tight in the chemical products market as a result of the declining volume of import in chemical products. The prices of petrochemical products rocketed and the overall prices of petrochemical products were increased by 3.3% when compared with that of the previous year.

(4) Natural Gas Market Review

In 2007, the domestic natural gas market developed rapidly with strong growth in demand for natural gas. The external sales of natural gas reached 43.6 billion cubic metres, representing an increase of 22% as compared to that of the previous year. On August 30, 2007, the PRC Government promulgated the Policies on Natural Gas Utilisation in order to ease the supply-and-demand tension of natural gas, optimise the utilisation structure of natural gas and promote the idea of reducing energy consumption and emissions. In addition, with a view to guide the market towards a more rationalised consumption of natural gas and to narrow the difference between domestic natural gas prices and alternative energy prices, the PRC Government raised the basic ex-factory price of natural gas for industrial use by RMB400 per thousand cubic metre on November 10, 2007.

2. Business Review

(1) Exploration and Production

In 2007, the Group stepped up oil and gas exploration in the PRC. Major breakthroughs of strategic significance were achieved through further geological research and emphasis on the application of new technologies, and concerted efforts on oil and gas exploration activities. In

particular, the Company discovered the Jidong Nanpu Oilfield which is with relatively high crude oil reserves. Moreover, significant progress was achieved during the oil and gas exploration in the Sichuan Basin, the Erdos Basin, the Songliao Basin and the Tarim Basin. With a better composition of orderly managed reserves, the Company has entered into the peak in the growth of reserves. In respect of overseas oil and gas exploration, new progress was made with discovery of relatively high reserves in regions including Chad and Kazakhstan. In 2007, the Group achieved crude oil reserve replacement ratio of 1.104 and natural gas reserve replacement ratio of 3.238.

In the development of domestic oilfields, the policy of “steady development in the east, and rapid development in the west” was upheld. New ways in the exploration of oilfield and natural gas fields were actively adopted. The Company has extensively initiated works for the secondary recovery of mature oilfields so as to maintaining a steady oil and gas production through the deployment of various comprehensive measures including deepening fine reservoir characterisation, stabilising oil production by water-cut control, tertiary oil recovery and so forth, as well as actively promoting sophisticated technologies such as horizontal application and under-balanced drilling. The foundation for oil stabilization in the mature oilfields has been consolidated. The Company has also conducted overall assessment, planning and development building up the production capacity in new fields. In respect of regions outside China, various measures were adopted to slow down the reduction in the productivity of mature oilfields, strengthen the organisational operation and management of drilling and maintenance of wells and enhance the productivity of newly discovered wells. Through the above measures, in 2007, the total crude oil and natural gas output of the Group was 1,110.0 million barrels of oil equivalent, including 838.8 million barrels of crude oil and 1,627.0 billion cubic feet of marketable natural gas. In 2007, the lifting cost for the oil and gas operations of the Group was US\$7.75 per barrel, representing an increase of 15.0% from US\$6.74 per barrel in 2006.

Summary of Operations of the Exploration and Production Segment

	Unit	2007	2006	Year-on-year change (%)
Crude oil output	Million barrels	838.8	830.7	1.0
Marketable natural gas output	Billion cubic feet	1,627.0	1,371.9	18.6
Oil and natural gas equivalent output	Million barrels	1,110.0	1,059.4	4.8
Proved reserves of crude oil	Million barrels	11,706	11,618	0.8
Proved reserves of natural gas	Billion cubic feet	57,111	53,469	6.8
Proved developed reserves of crude oil	Million barrels	9,047	9,185	(1.5)
Proved developed reserves of natural gas	Billion cubic feet	26,047	22,564	15.4

(2) Refining and Marketing

In 2007, faced with the growing demand in the market, the Group organised refining processing meticulously, scientifically modified refining arrangements, and optimised allocation of resources actively. Safe, steady, long-term, full-load and optimised production was achieved resulting from improvement of the production control management system. Crude oil

processing and production of key refined products reached a historically high level. In order to react to changes in the sales market proactively, resources were organised through various means. Production, transportation and distribution arrangements were enhanced and better co-ordinated. Allocation of resources was optimised. The scale of sales to end-users was expanded. The level of retail sales management and the quality of services were enhanced continuously. All these have paved the way to form a strongly focused and highly efficient nationwide distribution network throughout the PRC, thereby ensuring a gradual stable market supply. The Group's refineries processed 823.6 million barrels of crude oil, approximately 80% of which was supplied by the Exploration and Production segment. The Group produced approximately 71.38 million tons of gasoline, diesel and kerosene and sold approximately 85.74 million tons of these products. The cash processing cost of the Group's refineries decreased from RMB169 per ton in 2006 to RMB155 per ton in 2007.

Summary of Operations of the Refining and Marketing Segment

	Unit	2007	2006	Year-on-year change (%)
Processed crude oil	Million barrels	823.6	785.0	4.9
Gasoline, kerosene and diesel output	'000 ton	71,381	68,318	4.5
of which: Gasoline	'000 ton	22,019	22,027	(0.04)
Kerosene	'000 ton	2,017	2,064	(2.3)
Diesel	'000 ton	47,345	44,227	7.0
Crude oil processing load	%	97.7	95.9	1.8 percentage point
Light products yield	%	73.99	73.48	0.5 percentage point
Refining yield	%	93.01	92.17	0.8 percentage point
Market share in retail	%	37.0	34.7	2.3 percentage point
Number of service stations	Unit	18,648	18,207	2.4
of which: owned service stations	Unit	17,070	16,624	2.7
Sales volume per service station	Ton/day	8.4	7.8	7.7

(3) Chemicals and Marketing

In 2007, the Group achieved economies of scale and steady operations in the Chemical and Marketing segment. Key technological and economic indicators improved continuously. Allocation of resources and production mix were further optimised. The production of chemical products and ethylene reached 15.55 million tons and 2.58 million tons, respectively.

Summary of Operations of the Chemicals and Marketing Segment

Output of key chemical products	Unit	2007	2006	Year-on-year change (%)
Ethylene	'000 ton	2,581	2,068	24.8
Synthetic resin	'000 ton	3,962	3,061	29.4
Synthetic fibre raw materials and polymer	'000 ton	1,459	1,232	18.4
Synthetic rubber	'000 ton	311	312	(0.3)
Urea	'000 ton	3,634	3,576	1.6

(4) Natural Gas and Pipeline

The Group proceeded with the construction of oil and gas pipelines on schedule and in an orderly manner. A number of long-distance main pipelines, among them the Lanzhou-Yinchuan Gas Transmission Pipeline of the West-East Gas Pipeline, the Daqing-Harbin Gas Transmission Pipeline and the Dagang-Zaozhuang Refined Oil Pipeline, were completed during 2007. A nationwide gas pipeline network is being formed connecting the four gas zones of the Company. Despatch priority of natural gas was centralised which could ensure safety in the gas transmission. Natural gas sales business has leveraged the advantage of the nationwide gas pipeline network and achieved an overall balanced development in the production, transportation and marketing, thereby ensuring a safe and steady supply of natural gas in key cities and key customers.

Summary of Operations of the Natural Gas and Pipeline Segment

	Unit	2007	2006	Year-on-year change (%)
Crude oil pipeline	Kilometres	10,559	9,620	9.8
Refined oil pipeline	Kilometres	2,669	2,413	10.6
Natural gas pipeline	Kilometres	22,043	20,590	7.1

6.1.2 Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the audited financial statements of the Group and the notes thereto set out in the 2007 Annual Report.

1. The financial data sets out below is extracted from the audited financial statements of the Group prepared under IFRS

(1) Consolidated Operating Results

For the twelve months ended December 31, 2007, profit before taxation of the Group was RMB204,381 million, representing an increase of 2.6% compared with the previous year. Net profit attributable to equity holders of the Company (“Net profit”) was RMB145,625 million, representing an increase of 2.4% compared with the previous year. The main performance indicators of the Group have achieved record high again and the overall business strengths of the Group improved markedly. Major discoveries were made through the Group’s oil and gas exploration. The oil and gas output reached another historical high in 2007. Production and marketing of refined products were steady, and the Group was able to effectively meet market demands. There was rapid progress in the development of natural gas pipelines, and construction of key projects was smooth. Development of the international operations of the Group has continued, paving the way for gradual expansion in the scale of the business of the Group’s international operations.

For the twelve months ended December 31, 2007, the basic and diluted earnings per share attributable to equity holders of the Company were RMB0.81 (2006: RMB0.79).

Turnover Turnover increased 21.2% from RMB688,978 million for the twelve months ended December 31, 2006 to RMB835,037 million for the twelve months ended December 31, 2007. This was primarily due to the increases in the selling prices and changes in the sales volume of major products including crude oil, natural gas and refined products, and the efforts made by the Group in expanding resources and developing markets by making use of the opportunities presented by persistently high prices in crude oil and petrochemical products in the international market. In addition, the increase of the sales of oil and gas products during the year also increased the turnover of the Group. The table below sets out the external sales volume and average realised prices for major products sold by the Group for 2006 and 2007 and percentages of change in the sales volume and average realised prices during these two years.

	Sales Volume ('000 ton)			Average Realised Price (RMB/ton)		
	2007	2006	Percentage of Change (%)	2007	2006	Percentage of Change (%)
Crude oil*	18,730	20,066	(6.7)	3,594	3,487	3.1
Natural gas (million cubic metre, RMB/'000 cubic metre)	43,570	35,715	22.0	693	678	2.2
Gasoline	27,003	23,899	13.0	5,168	5,035	2.6
Diesel	54,377	48,516	12.1	4,668	4,411	5.8
Kerosene	3,782	2,054	84.1	4,684	4,502	4.0
Heavy oil	8,772	8,009	9.5	2,519	2,482	1.5
Polyethylene	2,102	1,590	32.2	10,497	10,299	1.9
Lubricant	2,378	2,059	15.5	6,420	6,433	(0.2)

* The external sales volume of crude oil listed above is crude oil produced by the Company.

Operating Expenses Operating expenses increased 29.4% from RMB491,002 million for the twelve months ended December 31, 2006 to RMB635,182 million for the twelve months ended December 31, 2007, of which:

Purchases, Services and Other Expenses Purchases, services and other expenses increased 36.7% from RMB271,123 million for the twelve months ended December 31, 2006 to RMB370,740 million for the twelve months ended December 31, 2007. This was primarily due to (1) an increase in the purchase prices and purchase volume of crude oil, feedstock oil and refined products from external suppliers that resulted in the increase in the purchase costs; and (2) an increase in the lifting costs of oil and gas operations and the processing cost of the Group's refineries that resulted from the increase in prices of raw materials, fuel, energy and other production materials in the PRC as well as an expansion of the production scale of the Group. In addition, the increase in the purchase expenses also resulted from an increase in the refined product supply operations in 2007.

Employee Compensation Costs The remuneration paid by the Group in cash rose 15.3% or increased RMB3,752 million from RMB24,538 million to RMB28,290 million for 2007. Other employees' costs increased RMB7,703 million from RMB14,623 million to RMB22,326

million for 2007. As a result of the above increment, employees' compensation costs and benefits increased RMB11,455 million. This was primarily due to (1) an increase in the level of salaries and performance bonuses as a result of growth in the performance of the Group and the increase in the commodity price; (2) an increase in the employees' compensation costs that resulted from the expansion of the scale of operations and the retail network of the Group; and (3) a sequential increase in the welfare expenses as a result of an increase in the salaries.

Exploration Expenses Exploration expenses increased 9.7% from RMB18,822 million for the twelve months ended December 31, 2006 to RMB20,648 million for the twelve months ended December 31, 2007. To further boost crude oil and natural gas resources, the Group undertook more exploration activities for crude oil and natural gas.

Depreciation, Depletion and Amortisation Depreciation, depletion and amortisation increased 8.5% from RMB61,388 million for the twelve months ended December 31, 2006 to RMB66,625 million for the twelve months ended December 31, 2007. This was primarily due to an increase in depreciation, depletion and amortisation that resulted from an increase in the average amount of property, plant and equipment and the average net value of oil and gas properties during 2007.

Selling, General and Administrative Expenses Selling, general and administrative expenses increased 19.3% from RMB43,235 million for the twelve months ended December 31, 2006 to RMB51,576 million for the twelve months ended December 31, 2007. This was primarily due to an increase in transportation, leasing, maintenance and other related costs that resulted from expansion in the production scale and business development.

Taxes other than Income Taxes Taxes other than income taxes increased 30.1% from RMB56,666 million for the twelve months ended December 31, 2006 to RMB73,712 million for the twelve months ended December 31, 2007. The increase was primarily due to a sharp increase in the payment of the special levy on the sale of domestic crude oil by the Group as international crude oil prices remained high throughout 2007.

Profit from Operations As a result of the factors discussed above, profit from operations increased 0.9% from RMB197,976 million for the twelve months ended December 31, 2006 to RMB199,855 million for the twelve months ended December 31, 2007.

Net Exchange Loss For the twelve months ended December 31, 2007, a net exchange loss of RMB866 million was recorded. For the twelve months ended December 31, 2006, there was net exchange gain of RMB74 million. The increase in the net exchange loss was primarily due to a combination of the effects of the appreciation of Renminbi against the United States Dollar and other currencies.

Net Interest Expenses Net interest expenses increased 39.1% from RMB1,154 million for the twelve months ended December 31, 2006 to RMB1,605 million for the twelve months ended December 31, 2007. The increase in net interest expenses was primarily due to an increase in

interest expenses recognised as a result of the accretion expense in relation to asset retirement obligations.

Profit Before Taxation Profit before taxation rose by 2.6% from RMB199,173 million for the twelve months ended December 31, 2006 to RMB204,381 million for the twelve months ended December 31, 2007.

Taxation Taxation decreased 1.3% from RMB49,776 million for the twelve months ended December 31, 2006 to RMB49,152 million for the twelve months ended December 31, 2007. The decrease was primarily due to a reduction in the income tax of the Group for the twelve months ended December 31, 2007 as the Group reassessed its deferred taxes based on the enacted corporate income tax rate under the Corporate Income Tax Law of the PRC which came into effect on January 1, 2008.

Net Profit As a result of the factors discussed above, net profit increased 2.4% from RMB142,224 million for the twelve months ended December 31, 2006 to RMB145,625 million for the twelve months ended December 31, 2007.

(2) Segment Information

Exploration and Production

Turnover

Turnover increased 11.1% from RMB421,340 million for the twelve months ended December 31, 2006 to RMB468,175 million for the twelve months ended December 31, 2007. The increase was primarily due to an increase in the prices and sales volume of crude oil and natural gas. The average realised crude oil price of the Group in 2007 was US\$65.27 per barrel, representing an increase of 9.1% from US\$59.81 per barrel compared with the previous year.

Operating Expenses

Operating expenses increased 29.8% from RMB201,480 million for the twelve months ended December 31, 2006 to RMB261,588 million for the twelve months ended December 31, 2007. The increase was primarily due to a sharp increase in the payment of the special levy on the sale of domestic crude oil by the Group as international crude oil prices remained high throughout 2007.

Profit from Operations

Profit from operations decreased 6.0% from RMB219,860 million for the twelve months ended December 31, 2006 to RMB206,587 million for the twelve months ended December 31, 2007. The Exploration and Production segment remains the main source of profit of the Group.

Refining and Marketing

Turnover

Turnover rose 23.5% from RMB543,299 million for the twelve months ended December 31, 2006 to RMB670,844 million for the twelve months ended December 31, 2007. The increase was due to an increase in the realised selling prices of, and changes in the sales volume of, key refined products. The Refining and Marketing segment is the main source of external sales revenue of the Group.

Operating Expenses

Operating expenses increased 20.8% from RMB572,463 million for the twelve months ended December 31, 2006 to RMB691,524 million for the twelve months ended December 31, 2007. The increase was primarily due to an increase in the purchase costs of crude oil, feedstock oil and refined products from external suppliers, and an increase in the selling, general and administrative expenses. In addition, the increase in the operating expenses also resulted from an increase in the level of refined product supply operations in 2007.

Loss from Operations

Loss from operations amounted to RMB20,680 million for the twelve months ended December 31, 2007, representing a reduction of RMB8,484 million for the twelve months ended December 31, 2006. The loss from the Refining and Marketing segment was primarily due to the control of the domestic prices of refined products by the PRC Government, as a result of which despite persistently high crude oil prices, prices of refined products were lower than that of the international market.

Chemicals and Marketing

Turnover

Turnover rose 24.1% from RMB82,791 million for the twelve months ended December 31, 2006 to RMB102,718 million for the twelve months ended December 31, 2007. The growth in turnover was primarily due to an increase in the selling prices and sales volume of certain chemical products.

Operating Expenses

Operating expenses increased 22.1% from RMB77,733 million for the twelve months ended December 31, 2006 to RMB94,887 million for the twelve months ended December 31, 2007. The increase was primarily due to an increase in the purchase costs for direct materials and selling, general and administrative expenses.

Profit from Operations

Profit from operations increased 54.8% from RMB5,058 million for the twelve months ended December 31, 2006 to RMB7,831 million for the twelve months ended December 31, 2007. Benefiting from the advantages created by the integration of production and marketing of chemical products, the volumes of production of high value-added and special products were increased to a great extent, and operating efficiency and profitability continued to improve in the Chemicals and Marketing segment.

Natural Gas and Pipeline

Turnover

Turnover increased 28.6% from RMB38,917 million for the twelve months ended December 31, 2006 to RMB50,066 million for the twelve months ended December 31, 2007. The increase was primarily due to an increase in the sales volume and selling prices of natural gas, and an increase in the volume of natural gas from pipeline transmission and the average price for pipeline transmission of natural gas.

Operating Expenses

Operating expenses increased 25.5% from RMB29,931 million for the twelve months ended December 31, 2006 to RMB37,571 million for the twelve months ended December 31, 2007. The increase was primarily due to an increase in the purchase costs of natural gas and an increase in depreciation charges.

Profit from Operations

Profit from operations increased 39.0% from RMB8,986 million for the twelve months ended December 31, 2006 to RMB12,495 million for the twelve months ended December 31, 2007. The natural gas and pipeline business grew rapidly and has become a new profit growth engine of the Group.

(3) Assets, Liabilities and Equity

The following table sets out the key items in the consolidated balance sheet of the Group:

	As at December 31, 2007	As at December 31, 2006	Percentage of Change
	RMB million	RMB million	%
Total assets	1,060,131	872,163	21.6
Current assets	231,175	162,222	42.5
Non-current assets	828,956	709,941	16.8
Total liabilities	283,784	254,572	11.5
Current liabilities	198,095	179,879	10.1
Non-current liabilities	85,689	74,693	14.7
Equity attributable to equity holders of the Company	733,405	586,677	25.0
Share capital	183,021	179,021	2.2
Reserves	217,952	143,564	51.8
Retained earnings	332,432	264,092	25.9
Total equity	776,347	617,591	25.7

Total assets amounted to RMB1,060,131 million, representing an increase of 21.6% from that at the end of 2006, of which:

Current assets amounted to RMB231,175 million, representing an increase of 42.5% from the current assets as at the end of 2006. The increase in the current assets was primarily due to: an increase in cash, cash equivalents and time deposits with maturities over three months but within one year in the aggregate amount of RMB31,965 million resulting from a combination effect of the issuance of A shares by the Company and an increase in the investment activities expenditures of the Company; an increase in inventories of an amount of RMB12,429 million as a result of rising prices and volume of inventories; an increase in accounts receivable in the amount of RMB9,931 million as a result of the development of the principal operations and the increase in income from the principal operations of the Group and an increase in advances in the amount of RMB12,737 million as a result of an increase in investment expenditures.

Non-current assets amounted to RMB828,956 million, representing an increase of 16.8% from the non-current assets as at the end of 2006. The increase in non-current assets was primarily due to an increase in capital expenditures, resulting in an increase in property, plant and equipment (including fixed assets, oil and gas properties etc.) in the amount of RMB117,545 million.

Total liabilities amounted to RMB283,784 million, representing an increase of 11.5% from the total liabilities as at the end of 2006, of which:

Current liabilities amounted to RMB198,095 million, representing an increase of 10.1% from the current liabilities as at the end of 2006. The increase in current liabilities was primarily due to an increase in procurement expenditure that resulted in an increase in accounts payable and accrued liabilities of RMB24,171 million.

Non-current liabilities amounted to RMB85,689 million, representing an increase of 14.7% from the non-current liabilities as at the end of 2006. The increase in non-current liabilities was primarily due to an increase in estimated liabilities of RMB6,280 million in relation to assets retirement obligations, and an increase in long-term borrowings of RMB4,054 million.

Equity attributable to the equity holders of the Company amounted to RMB733,405 million, representing an increase of 25.0% from the equity attributable to equity holders of the Company as at the end of 2006. The increase in equity attributable to the Company's equity holders was primarily due to an increase in the amount of the retained earnings and the issuance of A shares resulting in an increase in the share capital and reserves.

(4) Cash Flows

The primary sources of funds of the Group are cash generated from operating activities and short-term and long-term borrowings. The funds of the Group are mainly used for operating activities, capital expenditures, repayment of short-term and long-term borrowings and distribution of dividends to equity holders of the Company.

The table below sets forth the cash flows of the Group for the year ended December 31, 2007 and December 31, 2006 respectively and the amount of cash and cash equivalents as at the end of each year:

	Year Ended December 31,	
	2007	2006
	RMB million	RMB million
Net cash flows generated from operating activities	203,748	198,102
Net cash flows used for investing activities	(184,205)	(158,451)
Net cash flows used for financing activities	(2,648)	(71,739)
Currency translation differences	40	(258)
Cash and cash equivalents as at the end of year	65,494	48,559

Net Cash Flows Generated From Operating Activities

The net cash flows of the Group generated from operating activities for the twelve months ended December 31, 2007 was RMB203,748 million, representing an increase of 2.9% compared with RMB198,102 million generated for the twelve months ended December 31, 2006. As at December 31, 2007, the Group had cash and cash equivalents of RMB65,494 million. The cash and cash equivalents were mainly denominated in Renminbi (approximately 88.9% were denominated in Renminbi, and approximately 11.1% were denominated in United States Dollars).

Net Cash Flows Used for Investing Activities

The net cash flows of the Group used for investing activities for the twelve months ended December 31, 2007 was RMB184,205 million, representing an increase of 16.3% compared with RMB158,451 million used for the twelve months ended December 31, 2006. The net increase in cash flows used for investing activities was primarily due to an increase in capital expenditures paid in cash during the year.

Net Cash Flows Used for Financing Activities

The net cash flows of the Group used for financing activities for the twelve months ended December 31, 2007 was RMB2,648 million, representing a decrease of RMB69,091 million compared with RMB71,739 million used for the twelve months ended December 31, 2006. The net decrease was primarily due to an increase in the amount of cash flows generated from financing activities of the Group as a result of the issuance of A shares by the Company during the year.

The net borrowings of the Group as at December 31, 2007 and December 31, 2006, respectively, are as follows:

	As at December 31, 2007	As at December 31, 2006
	RMB million	RMB million
Short-term borrowings (including current portion of long-term borrowings)	30,934	35,763
Long-term borrowings	39,688	35,634
Total borrowings	70,622	71,397
Less: Cash and cash equivalents	(65,494)	(48,559)
Net borrowings	5,128	22,838

Maturities of long-term borrowings of the Group are as follows:

	Principal as at December 31, 2007	Principal as at December 31, 2006
	RMB million	RMB million
To be repaid within one year	12,200	20,607
To be repaid within one to two years	5,754	11,797
To be repaid within two to five years	19,898	10,449
To be repaid after five years	14,036	13,388
	51,888	56,241

Of the total borrowings of the Group as at December 31, 2007, approximately 17.0% were fixed-rate loans and approximately 83.0% were floating-rate loans. Of the borrowings as at December 31, 2007, approximately 67.4% were denominated in Renminbi, approximately 28.8% were denominated in United States Dollars, approximately 2.8% were denominated in Hong Kong Dollars, approximately 0.6% were denominated in Singapore Dollars,

approximately 0.3% were denominated in Euro and approximately 0.1% were denominated in Japanese Yen.

As at December 31, 2007, the gearing ratio of the Group (gearing ratio = interest-bearing debts/(interest-bearing debts + total equity)) was 8.3% (10.4% as at December 31, 2006).

(5) Capital Expenditures

For the twelve months ended December 31, 2007, capital expenditures of the Group increased 22.1% to RMB181,583 million from RMB148,746 million for the twelve months ended December 31, 2006. The increase in capital expenditures was primarily due to an increase in expenditures relating to crude oil and natural gas exploration and development, and construction of major petrochemical projects in 2007 as well as increases in the prices of steel, fuel oil, water, electricity and other production materials.

	For the Twelve Months Ended December 31,					
	2007		2006		Estimates for 2008	
	RMB million	%	RMB million	%	RMB million	%
Exploration and Production	134,256*	73.94	105,192*	70.72	132,300*	63.64
Refining and Marketing	26,546	14.62	19,206	12.91	23,000	11.06
Chemicals and Marketing	8,165	4.50	10,681	7.18	13,200	6.35
Natural Gas and Pipeline	11,003	6.06	11,309	7.60	37,700	18.13
Other	1,613	0.88	2,358	1.59	1,700	0.82
Total	181,583	100	148,746	100	207,900	100

* If investments related to geological and geophysical exploration costs were included, the capital expenditures and investments for the Exploration and Production segment for 2006 and 2007, and the estimates for the same in 2008 would be RMB114,520 million, RMB145,743 million and RMB143,200 million, respectively.

Exploration and Production

The majority of the Group's capital expenditures were related to the Exploration and Production segment. For the twelve months ended December 31, 2007, capital expenditures in relation to the Exploration and Production segment amounted to RMB134,256 million, including RMB23,914 million for oil and gas exploration activities and RMB91,463 million for oil and gas development activities. The increase in capital expenditures was primarily due to an increase in expenditures relating to oil and gas exploration and development of new proven oilfields and gas fields which reflects the Group's goal to boost reserves and achieve steady growth of oil and gas output.

The Group anticipates that capital expenditures for the Exploration and Production segment for 2008 will amount to RMB132,300 million. Approximately RMB24,200 million will be used for oil and gas exploration, and RMB90,500 million will be used for oil and gas development. Exploration and development activities will mainly emphasise the overall control

of Jidong Nanpu region and other regions. Construction of new proven oilfields and gas fields will be carried out, while secondary recovery of and steady production of mature oilfields will also be emphasised.

Refining and Marketing

Capital expenditures for the Group's Refining and Marketing segment for the twelve months ended December 31, 2007 amounted to RMB26,546 million, including RMB6,580 million was used in the expansion of the highly efficient retail sales network of refined products and storage infrastructure facilities for oil products and RMB15,266 million was used in the reconstruction of refining facilities. The increase in these capital expenditures was primarily due to the construction and expansion of refining facilities.

The Group anticipates that capital expenditures for the Refining and Marketing segment for 2008 will amount to RMB23,000 million, of which approximately RMB16,100 million for construction and expansion of refining facilities, which mainly include the construction of large scale refining projects such as Dalian Petrochemical, Dushanzi Petrochemical, Guangxi Petrochemical and Fushun Petrochemical, and approximately RMB6,900 million for investments in the expansion of the sales network for refined products and construction of storage infrastructure facilities for oil products.

Chemicals and Marketing

Capital expenditures for the Chemicals and Marketing segment for the twelve months ended December 31, 2007 amounted to RMB8,165 million, which were used mainly for the construction and expansion of petrochemical facilities.

The Group anticipates that capital expenditures for the Chemicals and Marketing segment for 2008 will amount to RMB13,200 million, which are expected to be used primarily for the construction and expansion of petrochemical facilities including large scale ethylene projects such as Dushanzi Petrochemical, Daqing Petrochemical, Fushun Petrochemical and Sichuan Petrochemical.

Natural Gas and Pipeline

Capital expenditures in the Natural Gas and Pipeline segment for the twelve months ended December 31, 2007 amounted to RMB11,003 million. The Group incurred RMB8,980 million of these expenditures on the construction of long distance pipelines.

The Group anticipates that capital expenditures for the Natural Gas and Pipeline segment for 2008 will amount to RMB37,700 million, which are expected to be used primarily for main oil and gas transmission projects such as the Lanzhou-Zhengzhou-Changsha refined oil pipeline project, the Second West-East Gas Pipeline project and associated gas storage facilities and LNG projects.

Others

Capital expenditures for Other segment (including research and development activities) for the twelve months ended December 31, 2007 were RMB1,613 million.

The Group anticipates that capital expenditures for Other segment for 2008 will amount to approximately RMB1,700 million, which are expected to be used primarily for research and development activities and for implementation of ERP and other information systems.

2. The financial data set out below is extracted from the audited financial statements of the Group prepared under CAS

(1) Income from principal operations, cost of principal operations and profit from principal operations by segments under CAS are set out below:

	For the year ended December 31,	
	2007	2006
	RMB million	RMB million
Income from principal operations		
Exploration and production	455,244	410,357
Refining and marketing	662,322	534,985
Chemicals and marketing	99,864	79,153
Natural gas and pipeline	49,299	38,642
Other	871	1,015
Inter-segment elimination	(458,484)	(398,449)
Consolidated income from principal operations	809,116	665,703
Cost of principal operations		
Exploration and production	179,380	138,221
Refining and marketing	620,758	505,275
Chemicals and marketing	83,699	64,580
Natural gas and pipeline	35,524	27,995
Other	211	1,028
Inter-segment elimination	(457,551)	(397,729)
Consolidated cost of principal operations	462,021	339,370
Profit from principal operations		
Exploration and production	223,876	235,353
Refining and marketing	25,562	15,285
Chemicals and marketing	15,821	14,309
Natural gas and pipeline	13,077	10,102
Other	654	(33)
Consolidated profit from principal operations	278,990	275,016
Net profit attributable to equity holders of the Company	134,574	136,229

(2) Financial data prepared under CAS

	As at December 31, 2007	As at December 31, 2006	Percentage of change
	RMB million	RMB million	%
Total assets	994,092	815,144	22.0
Current assets	236,228	164,717	43.4
Non-current assets	757,864	650,427	16.5
Total liabilities	279,021	247,549	12.7
Current liabilities	201,654	180,465	11.7
Non-current liabilities	77,367	67,084	15.3
Equity to equity holders of the Company	677,367	541,467	25.1
Total equity	715,071	567,595	26.0

For reasons for changes, please read part 1(3) in 6.1.2

(3) Principal operations by segment and by product under CAS

By segment	Income from principal operations for the year ended 2007	Cost of principal operations for the year ended 2007	Margin*	Year-on- year change in income from principal operations	Year-on- year change in cost of principal operations	Increase or decrease in margin
	RMB million	RMB million	%	%	%	Percentage point
Exploration and production	455,244	179,380	49.2	10.9	29.8	(8.2)
Refining and marketing	662,322	620,758	3.9	23.8	22.9	1.0
Chemicals and marketing	99,864	83,699	15.8	26.2	29.6	(2.2)
Natural gas and pipeline	49,299	35,524	26.5	27.6	26.9	0.4
Other	871	211	-	-	-	-
Inter-segment elimination	(458,484)	(457,551)	-	-	-	-
Total	809,116	462,021	34.5	21.5	36.1	(6.8)

* Margin=Profit from principal operations /Income from principal operations

(4) Principal operations by regions under CAS

Revenue from external customers	2007	2006	Year-on-year change
	RMB million	RMB million	%
PRC	807,706	665,267	21.4
Other	27,331	23,711	15.3
Total	835,037	688,978	21.2
Total assets			
PRC	924,931	765,373	20.8
Other	69,161	49,771	39.0
Total	994,092	815,144	22.0

(5) Principal subsidiaries and associates of the Group

Name of company	Registered capital	Shareholding	Amount of total assets	Amount of total liabilities	Net profit
	RMB million	%	RMB million	RMB million	RMB million
Daqing Oilfield Company Limited	47,500	100.00	142,211	28,228	61,888
CNPC Exploration and Development Company Limited	100	50.00	69,161	24,698	12,396
Dalian West Pacific Petrochemical Co., Ltd.	USD258 million	28.44	14,223	10,890	610
China Marine Bunker (PetroChina) Co., Ltd.	1,000	50.00	6,254	4,012	274

6.2 Business Prospect

Looking forward in 2008, the global economy will hopefully maintain steady growth, and the Chinese economy will maintain its rapid growth momentum. These will continue to fuel the demand for oil and natural gas and petrochemical products. Government regulations will become more stringent. The public will be more concerned with changes in crude oil prices and stability in oil and gas supply. Confronted with complicated and ever changing external environment, and ever increasing market competition, the Group will seek new growth engines positively in order to achieve good and rapid business developments, and continue to implement the three main strategies in the areas of resources, marketing and internationalisation of operations. The Group will continue to place top priority on resources exploration and development and further consolidate its leading position of the upstream business in China. The Group will speed up modification of the strategic structure of its refinery and petrochemical business and to develop such business in an orderly and efficient manner. Sales of refined products and petrochemical products could be improved to ensure market supply. Construction of strategic pipelines and the domestic pipeline network will be enhanced with a view to building up a diversified oil and gas supply system. The Group will continue to enhance international energy co-operation opportunities in order to be mutually benefited, and endeavour to achieve efficient and sustainable development of its overseas businesses.

In respect of exploration and production, the Group will continue to place top priority on resources exploration and development and further consolidate the leading position of its upstream business in China. The Group will stress the parallel development of oil and gas exploration, carry out exploration at the key basins and focus on key preliminary exploration projects. Exploration of mature oilfields will be enhanced, and venture into the exploration of new oilfields will be pushed forward actively. The Group will endeavour to unearth sizeable and high quality reserves with a view to meet the annual reserves target. In oilfield exploration, emphasis will be placed on the overall development of new oilfields. The Group has extensively initiated works to achieve a steady oil and gas production in mature oilfields through the deployment of various comprehensive measures including conducting secondary recovery of mature oilfields, strengthening the descriptive analysis of reserves and unearthing potential resources. In natural gas exploration, emphasis will be placed on construction in key

gas regions, overall planning and development and production planning. Production capacity will be enhanced at a quicker pace so that rapid growth of natural gas production can be sustained.

In respect of refining and petrochemicals, the Group will speed up modification of the strategic structure of its refinery and petrochemical business to expedite and facilitate the construction of large-scale refinery and petrochemical bases and to develop such business in an orderly and efficient manner. The Group will strive to meet market requirements for refined products and petrochemical products necessitated by rapid growth in the economic and social developments by improving production organisation and management, arranging for resources processing in a scientific manner, and ensuring full load operation of refinery facilities and high load, safe and steady operation of petrochemical facilities. The Group will continue to improve different economic and technological indicators, optimise product mix, and improve market competitiveness.

In respect of the sale of refined products, the Group will further improve the refined products sales and distribution network and sales information system. Efforts will be made to explore profitable markets. Regulated management of service stations and regulated sales of refinery products will be strengthened with a view to increase the retail sales and daily sales of individual service station. The Group will endeavour to improve the marketing quality and operating efficiency of the sale of high quality lubricants business. Increasing efforts will be made to achieve overall balance of better resources allocation, optimisation and utilisation of resources in various markets in order to ensure supply of refined products in the domestic market.

In respect of natural gas and pipeline construction, the Group will continue to pursue actively key construction projects. Construction of the four major strategic oil and gas pipelines in the northwestern, northeastern and southwestern China as well as in the sea and the domestic trunk pipeline network will be sped up. Storage and transportation facilities and resources despatch capabilities will be improved. A nationwide pipeline network and supply system characterised by diversification of resources, flexible despatch priority and stable supply will be established. Overall balance of the allocation of natural gas resources will be enhanced. Linkage of production, transportation and marketing will be enhanced. Utilisation of gas will be optimised, and marketing efficacy could be boosted. Further studies on extended natural gas business will be conducted with a view to achieving secondary value-added benefits to the application of natural gas.

In respect of international operations, the Group will continue to enhance international energy co-operation opportunities in order to obtain mutual benefits, and endeavour to achieve efficient and sustainable development of the scale of its overseas businesses. The Group will focus on oil and gas exploration, continue to expand the scale of reserves and speed up the pace of overseas businesses development. Subject to proper risk management, the Group will develop its current businesses steadily in the global market, continue to utilise various business forms, and gradually improving the allocation of resources of the Group to an international level.

In respect of safety and environmental protection, the Group will continue to adhere firmly to the principle of “prioritising of safety, environmental protection and people-orientation” and minimise potential risks in full force. The Group will promote the effective operation of the Health, Safety and Environment (HSE) management system. The Group will put its emphasis on energy saving, water saving and land saving and reducing emission of pollutants, and continue to improve efficiency in utilisation of resources.

In its future development, the Group will continue to emphasise two main guiding principles, namely, scientific development and social harmony. The Group will continue to conduct its business in a prudent and steady manner, thereby increasingly enhancing its corporate value and actively fulfilling its economic, environmental and social responsibilities to maximise returns to its equity holders, the society and its staff.

6.3 Risk Factors

During the course of its production and operations, the Group actively took various measures to avoid and mitigate all types of risks. However, in practice, it may not be possible to prevent all risks and uncertainties completely.

1. Industry Regulations and Tax Policies Risk

Like other oil and gas companies in China, the Group’s operating activities are subject to extensive regulations and controls by the PRC Government. These regulations and controls, such as by way of issue of exploration and production licences, the imposition of industry-specific taxes and levies and the implementation of environmental policies and safety standards etc., are expected to have impact on the Group’s operating activities. Any future changes in the PRC governmental policies in respect of oil and gas industry may also affect the Group’s business operations.

Taxes and levies are one of the major external factors affecting the operations of the Group. The PRC Government is actively progressing taxation reform which may lead to changes in the taxes and levies relating to the operations of the Group, thereby affecting the operating results of the Company.

2. Price Fluctuations of Crude Oil and Refined Products Risk

The Group is engaged in a wide range of petroleum-related activities. The prices of crude oil and refined products in the international market are affected by various factors such as changes in global and regional politics and economy, the supply and demand conditions of crude oil and refined products and unexpected political events and disputes with international repercussions. The domestic crude oil price is determined with reference to international price of crude oil, and in 2006, the PRC established new refined products pricing mechanism based on macro economic controls. However, as affected by the macro economic controls in the PRC, the prices of domestic refined products were not adjusted in line with the prices in the

international market. The Group has not adopted any commodity derivative instruments to hedge against potential price fluctuations of crude oil and refined products. Therefore, the Group is exposed to general price fluctuations of oil and gas commodities in 2008 and thereafter.

3. Foreign Exchange Rate Risk

The Group conducts its business primarily in Renminbi. Currently, the PRC Government has implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. However, Renminbi is still regulated in capital projects. The exchange rates of Renminbi are affected by domestic and international economic developments and political changes, and supply and demand for Renminbi. Future exchange rates of Renminbi against other currencies could vary significantly from the current exchange rates, hence affects the operating results and financial position of the Group.

4. Market Competition Risk

The Group has distinctive advantages in resources, and is occupying a leading position in the oil and gas industry in the PRC. At present, major competitors of the Group are other large domestic oil and petrochemical producers and sellers. With the gradual opening up of the domestic oil and petrochemical industry, certain large foreign oil and petrochemical companies have become competitors of the Group in certain regions and segments. The exploration and production business and natural gas and pipeline business of the Group have been in a leading position in China, but the refining and marketing business and the chemicals and marketing business of the Company are facing relatively keen competition.

5. Uncertainty of the Oil and Gas Reserves

According to industry characteristics and international customs, the crude oil and natural gas reserves data disclosed by the Group are estimates only. The Group has already engaged evaluation companies who are internationally recognised to evaluate the crude oil and natural gas reserves of the Group on a periodic basis. However, the reliability of reserve estimate depends on a number of factors, assumptions and variables, such as the quality and quantity of technical and economic data, the prevailing oil and gas prices applicable to the production of the Group etc., many of which are beyond the control of the Group and may be adjusted over time. Results of drilling, testing and exploration results after the date of the estimates may also result in revision to the reserves data of the Group.

6. Hidden Hazards Risks and Force Majeure Risk

Oil and gas exploration, development, storage and transportation and the production, storage and transportation of refined products and petrochemical products are faced with certain risks, which may cause unexpected or dangerous events, such as personal injuries or death, property damage, environmental damage and interruption of operations etc. With the expansion of operations scale and regions, the safety risks faced by the Group also increase accordingly.

Meanwhile, new regulations adopted in recent years set out higher standard for safety production. The Group has implemented a strict HSE management system and used its best endeavours to prevent the occurrence of various accidents. However, the Group cannot completely avoid potential financial losses caused by such contingent incidents. In addition, natural disasters such as earthquake, typhoon, tsunami and emergency public health events may cause losses to the properties and personnel of the Group, and may affect the normal operations of the Group.

6.4 Use of proceeds from fund raising

√ Applicable □ Not applicable

Unit: RMB million

Total amount of proceeds	In October 2007, the Company issued 4 billion A shares. The total proceeds and net proceeds from such issuance were RMB66,800 million and RMB66,243 million respectively.		Total amount of proceeds used this year	Out of the proceeds raised for the following five projects in the amount of RMB37,770 million, RMB13,943 million were used. Balance of the net proceeds would be used as additional working capital and for general commercial purpose.		
			Accumulated amount of proceeds used	Same as above.		
Committed project	Modification of the project	Proposed investment	Actual investment	Progress as planned	Estimated return	Project return
Project to increase the crude oil production capacity of Changqing Oilfield	No	6,840	2,718	Yes	Internal rate of return above 12%	To be confirmed only upon commissioning
Project to increase the crude oil production capacity of Daqing Oilfield	No	5,930	1,772	Yes	Internal rate of return above 12%	To be confirmed only upon commissioning
Project to increase the crude oil production capacity of Jidong Oilfield	No	1,500	495	Yes	Internal rate of return above 12%	To be confirmed only upon commissioning
Dushanzi Petrochemical's projects - processing and refining sulphur-bearing crude oil imported from Kazakhstan and ethylene technology development projects	No	17,500	8,867	Yes	Internal rate of return above 12%	To be confirmed only upon commissioning
Daqing Petrochemical 1.2 million tons/year ethylene redevelopment and expansion project	No	6,000	91	Yes	Internal rate of return above 12%	To be confirmed only upon commissioning
Total		37,770	13,943		—	—
Projects not progressing as planned and not achieving estimated return	—					
Projects modified and modification procedures	—					
Application and status of unused proceeds	The unutilised portion of the net proceeds of RMB37,770 million from the A share issuance has been deposited into the designated bank accounts maintained by the Company.					

6.5 Projects not funded by proceeds from fund raising

Applicable Not applicable

Unit: RMB million

Name of project	Total project amount	Progress of project	Project return
Dalian Petrochemical technological development project - processing 20 million tons of imported sulphur-bearing crude oil per year	10,789	Construction of part of the production facilities has been completed and production has commenced.	To be confirmed only upon commissioning
Guangxi Petrochemical project refining 10 million tons of crude oil per year	15,166	Installation of preliminary parts has been completed and construction has commenced.	To be confirmed only upon commissioning
Sichuan Petrochemical project with an ethylene output of 0.8 million tons per year	21,019	Preliminary work of the project has been completed and ordering of equipment has commenced.	To be confirmed only upon commissioning
Fushun Petrochemical one million tons per year ethylene technology development project	12,524	Preliminary work of the project has been completed and ordering of equipment has commenced.	To be confirmed only upon commissioning
Lanzhou-Zhengzhou-Changsha Refined Oil Pipeline	11,429	Installation of preliminary parts has been completed and construction has commenced.	To be confirmed only upon commissioning
Total	70,927	-	

6.6 Explanation of the Board of Directors about the Accounting Firm's "other than standard unqualified opinion"

Applicable Not applicable

6.7 Profit Forecast for the Next Fiscal Year

Applicable Not applicable

6.8 Profit Distribution Plan from the Board of Directors

The Board recommends to pay final dividends of RMB0.156859 per share (inclusive of applicable tax) based on 45% of the net profit of the Group for the twelve months ended December 31, 2007 under IFRS after deducting the interim dividends for 2007 paid on September 28, 2007. The proposed final dividends are subject to equity holders' review and approval at the forthcoming annual general meeting to be held on May 15, 2008. The final dividends will be paid to equity holders whose names appear on the register of members of the Company at the close of business on May 28, 2008. The register of members of H shares will be closed from May 22, 2008 to May 28, 2008 (both days inclusive) during which period no transfer of H shares will be registered. In order to qualify for the final dividends, holders of H shares must lodge all transfer documents together with the relevant share certificates at Hong Kong Registrars Limited no later than 4:00 p.m. on May 21, 2008. Equity holders of A shares

whose names appear on the register of members of the Company maintained at China Securities Depository and Clearing Corporation Limited Shanghai Branch Company at the close of trading on the Shanghai Stock Exchange in the afternoon of May 28, 2008 are eligible for the final dividends.

In accordance with the relevant provisions of the Company's Articles of Association, dividends payable to the Company's equity holders shall be declared in Renminbi. Dividends payable to the holders of A shares shall be paid in Renminbi while dividends payable to the holders of H shares shall be paid in Hong Kong Dollars. The amount of Hong Kong Dollars payable shall be calculated on the basis of the average of the closing exchange rate for Renminbi to Hong Kong Dollar as announced by the People's Bank of China for the week prior to the declaration of the dividends.

7 SIGNIFICANT EVENTS

7.1 Acquisition of Assets

Applicable Not applicable

Counterparty and assets acquired	Date of acquisition	Acquisition price	Net profit contributed to the Group since the date of the acquisition to the end of 2007	Net profit contributed to the Group from the beginning of the year to the end of 2007	Whether constitute connected transaction	Whether ownership of the relevant assets has been fully transferred	Whether contractual rights and obligations have been fully transferred
Acquisition from CNPC of the assets engaged in risk operation service business	August 23, 2007	RMB1,652 million	Not applicable	Not applicable	Yes, based on valuation	Yes	Yes

The above transaction did not have any impact on the continuity of operation and management stability of the Group and is advantageous to the future financial position and operating results of the Group.

7.2 Sale of Assets

Applicable Not applicable

Counterparty and assets sold	Date of sale	Price of the sale	Net profit contributed to the Group since the beginning of the year to the date of the sale	Profit/(Loss) from the sale	Whether constitute connected transaction	Whether ownership of the relevant assets has been fully transferred	Whether contractual rights and obligations related to the assets have been fully transferred
Disposal of 70% equity interest in China National United Oil Corporation to CNPC	May 16, 2007	RMB1.01 billion	RMB115 million	RMB292 million	Yes, based on valuation	Yes	Yes

The above transaction did not have any impact on the continuity of operation and management stability of the Group.

7.3 Material Guarantee

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):

	December 31, 2007	December 31, 2006
	RMB million	RMB million
Guarantee of borrowings of associates provided by CP Finance	77	162
Guarantee of borrowings of third parties provided by a state-controlled bank	-	41
	<u>77</u>	<u>203</u>

During the reporting period, the Company did not provide any guarantee to its shareholders, ultimate controller and their respective associates nor provided any guarantee, directly or indirectly, to companies with liabilities to assets ratio exceeding 70%. During the reporting period, the aggregate amount of the guarantees provided by the Company was not in excess of 50% of the net assets of the Company.

7.4 Material Connected Transactions

The information set out in the tables below is principally extracted from the financial statements of the Group prepared in accordance with CAS.

7.4.1 Connected sales and purchases

Applicable Not applicable

Connected party	Sales of goods and provision of services to connected party		Purchase of goods and services from connected party	
	Transaction amount	Percentage of the total amount of the type of transaction	Transaction amount	Percentage of the total amount of the type of transaction
	RMB million	%	RMB million	%
CNPC and its subsidiaries	31,325	3.75	146,381	20.26
Other connected parties	21,755	2.61	29,375	4.07
Total	53,080	6.36	175,756	24.33

7.4.2 Connected obligatory rights and debts

Applicable Not applicable

Connected parties	Funds provided to connected party		Funds provided to the Group by connected party	
	Occurrence amount	Balance	Occurrence amount	Balance
	RMB million	RMB million	RMB million	RMB million
CNPC and its subsidiaries	-	-	(2,680)	24,482
Other connected parties	45	1,814	-	-
Total	45	1,814	(2,680)	24,482

7.5 Entrusted Money Management

Applicable Not applicable

7.6 Performance of Commitments

√ Applicable □ Not applicable

Specific undertakings made by CNPC, the controlling shareholder of the Company, and performance of the undertakings as at December 31, 2007:

Name of Shareholder	Undertaking	Performance of Undertaking
CNPC	<p>According to the Restructuring Agreement entered into between CNPC and the Company on March 10, 2000, CNPC has undertaken to indemnify the Company against any claims or damages arising or resulting from certain matters in the Restructuring Agreement.</p>	<p>As at December 31, 2007, CNPC had obtained formal land use right certificates in relation to 27,554 out of 28,649 parcels of land and some building ownership certificates for the buildings pursuant to the undertaking in the Restructuring Agreement, but has completed none of the necessary governmental procedures for the service stations located on collectively-owned land. 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. The outcome of the above events will not have material adverse effect on the operating results and the financial position of the Group.</p>
	<p>According to the Non-Competition Agreement entered into between CNPC and the Company on March 10, 2000, CNPC has undertaken to the Company that CNPC will not, and will procure its subsidiaries not to, develop, operate, assist in operating nor participate in any businesses by itself or jointly with another company within or outside the PRC that will compete with or lead to competition with the core businesses of the Group. According to the Agreement, CNPC has also granted to the Company pre-emptive rights to transaction with regards to part of its assets.</p>	<p>At present, CNPC operated the following businesses which are identical or similar to the core businesses of the Group:</p> <p>1. Overseas operations which are identical or similar to the core businesses of the Group.</p> <p>CNPC has overseas operations in relation to exploration and production of crude oil and natural gas as well as production, storage and transportation of petroleum, chemical and related petroleum products. CNPC has oil and gas exploration and development operations in many overseas countries and regions.</p> <p>As the laws of the countries where ADS are listed prohibit their citizens from directly or indirectly financing or investing in the oil and gas projects in certain countries, CNPC did not inject the overseas oil and gas projects in certain countries to the Company.</p> <p>2. The existing projects of CNPC (Hong Kong) Limited</p> <p>Prior to the Company's listing on the Hong Kong Stock Exchange, CNPC (Hong Kong) Limited had three projects as follows: (1) blocks 9-1 to 9-5 of the Karamay Oilfield of Xinjiang; (2) Leng Jiapu Oilfield in Liaohai; (3) Sukothai Oilfield in Thailand with production right concession. After the establishment of the Company, CNPC (Hong Kong) Limited engaged in additional overseas projects.</p> <p>Upon establishment of the Company, CNPC's interests in CNPC (Hong Kong) Limited were not injected to the Company because CNPC (Hong Kong) Limited had businesses both in China and overseas. Without prior consent of the independent shareholders of CNPC (Hong Kong) Limited, the overseas businesses of CNPC (Hong Kong) Limited may not be restructured as part of the restructuring of the Company.</p> <p>To date, compared to the Company, the total asset and revenue of CNPC (Hong Kong) Limited is relatively small. The core businesses of each of CNPC (Hong Kong) Limited and the Group will not constitute substantive competition with the Company.</p> <p>3. Five sets of chemical production facilities</p> <p>Five sets of chemical production facilities, namely, an advanced alcohol facility, an acrylonitrile facility, a polybutadiene rubber facility, an acrylic fibre chemical facility and a facility comprising of four styrene units have been wholly owned by CNPC since the Company's establishment. Other than the advanced alcohol facility which has ceased production, the rest of the five sets of facilities are under normal operation.</p> <p>Given the five sets of chemical production facilities are relatively small in scale, low in productivity and profitability as compared with similar facilities of the Group, they will not constitute substantive competition with the principal businesses of the Group.</p> <p>4. Service stations wholly owned by CNPC or jointly owned by CNPC and third parties</p> <p>CNPC also owns a number of service stations (those service stations were not injected into the Company due to ambiguity in the ownership). Given the sales of refined oil products of these service stations are relatively small as compared with that of the Company, they will not constitute substantive competition with the Company.</p>
	<p>CNPC undertook that "for a period of 36 months commencing from the date of listing of the A shares of the Company on the Shanghai Stock Exchange, it will not transfer or entrust others for the management of the A shares which it holds, or allow such shares to be repurchased by the Company. However, certain shares held by CNPC, which may be subsequently listed on overseas stock exchanges after obtaining necessary approvals in the PRC, are not subject to the restriction of the 36-month lock-up period."</p>	<p>CNPC has not violated the relevant undertaking.</p>

7.7 Material Litigation and Arbitration

Applicable Not applicable

7.8 Other Significant Events

7.8.1 Investments in securities

Applicable Not applicable

7.8.2 Investment in securities of other listed companies

Applicable Not applicable

7.8.3 Investment in securities of non-listed financial institutions

Applicable Not applicable

7.8.4 Sale and purchase of securities of other listed companies

Applicable Not applicable

7.8.5 During the reporting period, the 98 PetroChina Corporate Bond (“98 Oil Bond”) was due on September 8, 2007 and the principal and interests of the bond were paid as scheduled. The total issue amount of the 98 Oil Bond was RMB1.35 billion for a term of 8 years. The par interest rate was in the form of fixed interest rate at 4.5% per annum.

8 REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is of the opinion that the Company's operation is in compliance with law. It is satisfied with the Company's financial position, use of proceeds of fund raising, acquisition and disposal of assets and connected transactions.

9 FINANCIAL STATEMENTS

9.1 Auditors' Opinion

Financial Statements	<input type="checkbox"/> Unaudited	<input checked="" type="checkbox"/> Audited
Auditors' opinion	<input checked="" type="checkbox"/> Standard unqualified opinion	<input type="checkbox"/> Other than standard unqualified opinion

9.2 The Group's Balance Sheets, Profit and Loss Accounts/ Income Statements, Cash Flow Statements and Changes in Equity, with Comparatives

9.2.1 Financial statements prepared in accordance with IFRS

1. Consolidated Profit and Loss Account

	Notes	2007 RMB million	2006 RMB million
TURNOVER	(i)	835,037	688,978
OPERATING EXPENSES			
Purchases, services and other		(370,740)	(271,123)
Employee compensation costs		(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		(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		(3,595)	(3,220)
TOTAL NET FINANCE COSTS		(2,471)	(1,080)
SHARE OF PROFIT OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES		6,997	2,277
PROFIT BEFORE TAXATION	(ii)	204,381	199,173
TAXATION	(iii)	(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)	(iv)	0.81	0.79
DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	(v)	64,517	68,589

2. Consolidated Balance Sheet

	2007	2006
	RMB million	RMB million
NON CURRENT ASSETS		
Property, plant and equipment	762,882	645,337
Investments in associates and jointly controlled entities	26,535	32,956
Available-for-sale financial assets	2,581	2,054
Advance operating lease payments	23,417	20,468
Intangible and other assets	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	88,467	76,038
Accounts receivable	18,419	8,488
Prepaid expenses and other current assets	36,018	23,281
Notes receivable	4,735	2,844
Time deposits with maturities over three months but within one year	18,042	3,012
Cash and cash equivalents	65,494	48,559
TOTAL CURRENT ASSETS	231,175	162,222
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	144,353	120,182
Income tax payable	11,709	17,744
Other taxes payable	11,099	6,190
Short-term borrowings	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	183,021	179,021
Retained earnings	332,432	264,092
Reserves	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	39,688	35,634
Asset retirement obligations	24,761	18,481
Deferred taxation	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

3. Consolidated Cash Flow Statement

	2007	2006
	RMB million	RMB million
CASH FLOWS FROM OPERATING ACTIVITIES	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.	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	(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	(64,517)	(68,589)
Issuance of A shares	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	48,559	80,905
Cash and cash equivalents at end of the year	65,494	48,559

4. Selected notes from the financial statements prepared in accordance with IFRS

(i) 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.

(ii) PROFIT BEFORE TAXATION

	2007	2006
	RMB million	RMB million
Profit before taxation is arrived at after crediting and charging of the following items:		
<u>Crediting</u>		
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
<u>Charging</u>		
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 a)	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
(a) Interest Expense		
Interest Expense	5,329	4,535
Less: Amounts capitalised	(1,734)	(1,315)
	3,595	3,220

(iii) TAXATION

	2007	2006
	RMB million	RMB million
Income tax	48,332	50,972
Deferred tax	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
	million	million
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	<u>49,152</u>	<u>49,776</u>

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 RMB3,758 million was recorded.

(iv) 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.

(v) DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

- (a) Final dividends attributable to equity holders of the Company in respect of 2005 of RMB0.180325 per share amounting to a total of RMB32,282 million 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 RMB0.202806 per share amounting to a total of RMB36,307 million 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 RMB0.154699 per share amounting to a total of RMB27,694 million 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 RMB0.205690 per share amounting to a total of RMB36,823 million 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 per share amounting to a total of RMB28,708 million. 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.

9.2.2 Financial statements prepared in accordance with CAS

(1) Consolidated and Company Balance Sheets

Unit: RMB million

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

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

(2) Consolidated and Company Income Statements

Unit: RMB million

Items	2007	2006	2007	2006
	The Group	The Group	The Company	The Company
1. Operating income	835,037	688,978	595,734	505,632
Less: Cost of sales	(487,112)	(362,590)	(405,180)	(337,585)
Tax and levies on operations	(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	(2,869)	(1,322)	(1,331)	(687)
Asset impairment losses	1,948	(2,914)	1,529	(1,938)
Add: Investment income	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	3,098	1,645	2,179	1,665
Less: Non-operating expenses	(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	(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)	0.75	0.76	0.71	0.74
Diluted earnings per share (RMB)	0.75	0.76	0.71	0.74

(3) Consolidated and Company Cash Flow Statements

Unit: RMB million				
Items	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	<u>967,003</u>	<u>821,318</u>	<u>698,871</u>	<u>610,259</u>
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	(57,525)	(53,467)	(54,287)	(46,255)
Sub-total of cash outflows	<u>(756,184)</u>	<u>(615,876)</u>	<u>(597,713)</u>	<u>(492,447)</u>
Net cash flows from operating activities	<u>210,819</u>	<u>205,442</u>	<u>101,158</u>	<u>117,812</u>
2. Cash flows from investing activities				
Cash received from disposal of investments	7,927	407	1,389	296
Consolidation of PetroKazakhstan Inc.	1,542	-	-	-
Deregistration of wholly-owned subsidiaries to branches	-	-	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	<u>13,908</u>	<u>4,847</u>	<u>69,407</u>	<u>68,906</u>
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	(149)	(4,095)	(149)	(4,095)
Sub-total of cash outflows	<u>(200,954)</u>	<u>(166,999)</u>	<u>(156,863)</u>	<u>(125,550)</u>
Net cash flows from investing activities	<u>(187,046)</u>	<u>(162,152)</u>	<u>(87,456)</u>	<u>(56,644)</u>
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	66,243	-	66,243	-
Cash received relating to other financing activities	427	260	407	148
Sub-total of cash inflows	<u>125,511</u>	<u>46,130</u>	<u>109,958</u>	<u>31,212</u>
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	<u>(132,389)</u>	<u>(121,508)</u>	<u>(108,357)</u>	<u>(103,165)</u>
Net cash flows from financing activities	<u>(6,878)</u>	<u>(75,378)</u>	<u>1,601</u>	<u>(71,953)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents	40	(258)	-	-
5. Net increase / (decrease) in cash and cash equivalents	<u>16,935</u>	<u>(32,346)</u>	<u>15,303</u>	<u>(10,785)</u>
Add: Cash and cash equivalents at beginning of the year	<u>48,559</u>	<u>80,905</u>	<u>45,029</u>	<u>55,814</u>
6. Cash and cash equivalents at end of the year	<u>65,494</u>	<u>48,559</u>	<u>60,332</u>	<u>45,029</u>

(4) Consolidated Statement of Changes in Equity

Unit: RMB million

Items	Shareholders' equity attributable to Company					Minority interest	Total shareholders' equity
	Share capital	Capital surplus	Surplus reserves	Undistributed profit	Currency translation differences		
Balance at December 31, 2005	179,021	72,276	76,573	164,065	-	25,020	516,955
First adoption of Accounting Standards for Business Enterprises	-	(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	-	(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
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	-	(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	4,000	62,243	-	-	-	-	66,243
Capital contribution by shareholders – other	-	-	-	-	-	1,349	1,349
Consolidation of PetroKazakhstan Inc.	-	-	-	-	-	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

9.2.3 Significant differences between IFRS and CAS

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

Consolidated Net profit	Notes	2007	2006
		RMB million	RMB million
Net profit under IFRS		155,229	149,397
Adjustments:			
Depreciation 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
Net profit for the year under CAS		143,494	142,747

Consolidated shareholders' equity	Notes	December 31, 2007	December 31, 2006
		RMB million	RMB million
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 disposal 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
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 June 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, cannot 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 January 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.

9.3 Explanation for Changes in Accounting Policy, Accounting Estimate or Recognition Policy as Compared with those for Last Annual Report

Applicable Not applicable

On January 1, 2007, the Group adopted the 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 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 investment under the equity method were written off.
- Goodwill arising from a business combination under common control was written off.
- Recognition of 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.

9.4 Nature, Corrected Amount, Reason and Impact of Material Accounting Error

There is no material accounting error in the current reporting period.

9.5 Changes in the Scope of Consolidation as Compared with those for Last Annual Report

Applicable Not applicable

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 RMB21,376 million. 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.

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.

10 REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company or any of its subsidiaries did not sell any securities of the Company, nor did it repurchase or redeem any of the securities of the Company during the twelve months ended December 31, 2007.

11 COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions for Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the “**Model Code**”). The Company has made an inquiry with all its Directors and Supervisors. Each Director and Supervisor has confirmed to the Company that each of them has complied with the requirements set out in the Model Code.

12 COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to enhancing the level of its corporate governance. The Company has complied with the code provisions under the Code on Corporate Governance Practices under the Listing Rules applicable during the year ended December 31, 2007, except that since May 20, 2007, the roles of the chairman and the president were held by the same person. Following the retirement of Mr Chen Geng, the then chairman of the Board, Mr Jiang Jiemin, who was the president and vice chairman of the Company, has since May 20, 2007 been appointed as the chairman of the Board concurrently with his role as the president of the Company. With his extensive experience in China’s oil and gas industry and substantial knowledge of the operations and management of the Company, the Board believes that Mr Jiang will continue to provide strong leadership to the Board and facilitate the Company to implement its plans and strategies smoothly and effectively. The Board believes that such change in the management structure will not affect the operations and business development and corporate governance of the Company. In view of the importance of the role as the president, should there be a candidate with the suitable credentials, the Board will consider appointing a new president to comply with the relevant requirement under the Code on Corporate Governance Practices.

13 AUDIT COMMITTEE

The members of the audit committee of the Company formed pursuant to Appendix 14 of the Listing Rules include Mr Franco Bernabè, Mr Chee-Chen Tung, Mr Liu Hongru and Mr Gong Huazhang. The main responsibilities of the audit committee are the review and monitoring of the form of financial submissions and the internal control mechanism of the

Group and giving advice to the Board of Directors. The audit committee of the Company has reviewed and confirmed the final results announcement and the 2007 Annual Report for the twelve months ended December 31, 2007.

The figures in respect of the results announcement of the Group's results for the year ended December 31, 2007 have been agreed by the Company's auditors to the amounts set out in the Group's audited consolidated financial statements for the twelve months ended December 31, 2007.

By Order of the Board of Directors
PetroChina Company Limited
Jiang Jiemin
Chairman
Beijing, the PRC
March 19, 2008

As at the date of this announcement, the Board comprises Mr Jiang Jiemin as the Chairman; Mr Duan Wende as executive director; Mr Zheng Hu, Mr Zhou Jiping, Mr Wang Yilin, Mr Zeng Yukang, Mr Gong Huazhang and Mr Jiang Fan as non-executive directors; and Mr Chee-Chen Tung, Mr Liu Hongru and Mr Franco Bernabè as independent non-executive directors.

This announcement contains certain forward-looking statements with respect to the financial position, financial results and business of the Group. These forward-looking statements are, by their names, subject to significant risk and uncertainties because they relate to events and depend on circumstances that may occur in the future and are beyond our control. The forward-looking statements reflect the Group's current views with respect of future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements.

This announcement is published in English and Chinese. In the event of any inconsistency between the two versions, the Chinese version shall prevail.

The Company will hold an online investor presentation in respect of the results of the Group for the year ended December 31, 2007 at the Online Road Show Centre of the China Securities Journal (www.cs.com.cn) on March 28, 2008 from 9:30 a.m. to 11:30 am (Beijing time). The senior management of the Company will respond online to the questions from the investors relating to the results of the Group for the year ended December 31, 2007, the production and operations of the Group and related questions. Shareholders of the Company and investors are welcome to participate.