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PETROCHINA CO LTD
Form 6-K
April 18, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13A-16 OR 15D-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the month of April 2008

PETROCHINA COMPANY LIMITED

16 ANDELU, DONGCHENG DISTRICT
BEIJING, THE PEOPLE'S REPUBLIC OF CHINA, 100011
(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F
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(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No
--- ---

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____)

PetroChina Company Limited (the "Registrant") is furnishing under the cover of Form 6-K the Registrant's 2007 Annual Report in accordance with the Hong Kong Exchange Listing Rules.

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the Registrant's plan to continue to place top priority on resources exploration and development and further consolidate its leading position of the upstream business in China;
- the Registrant's plan to speed up modification of the strategic structure of its refinery and petrochemical business and to develop such business in an orderly and efficient manner;
- the Registrant's plan to enhance the construction of strategic pipelines and the domestic pipeline network; and

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- the Registrant's other future plans and prospects.

These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in these forward-looking statements as a result of a number of factors, including, without limitation:

- fluctuations in crude oil and natural gas prices;
- failure to achieve continued exploration success;
- failure or delay in achieving production from development projects;
- failure to complete the proposed acquisition of certain overseas assets as planned;
- change in demand for competing fuels in the target market;
- continued availability of capital and financing;
- general economic, market and business conditions;
- changes in policies, laws or regulations of the PRC and other jurisdictions in which the Registrant and its subsidiaries conduct business; and
- other factors beyond the Registrant's control.

We do not intend to update or otherwise revise the forward-looking statements in this report, whether as a result of new information, future events or otherwise. Because of these

risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report might not occur in the way we expect, or at all.

You should not place undue reliance on any of these forward-looking statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PetroChina Company Limited

Dated: April 18, 2008

By: /s/ Li Huaiqi

Name: Li Huaiqi
Title: Company Secretary

PETROCHINA COMPANY LIMITED

2007 ANNUAL REPORT

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MARCH 2008

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IMPORTANT NOTICE

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 annual report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report. Mr Duan Wende, Director of the Company, was absent from the tenth meeting of the Third Session of the Board. Mr Duan Wende authorized Mr Zhou Jiping in writing to attend this meeting by proxy and to exercise his voting rights on his behalf. 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 this annual report.

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CORPORATE PROFILE

The Company was established as a joint stock company with limited liability under the Company Law of the People's Republic of China (the "PRC" or "China") on November 5, 1999 as part of the restructuring of the China National Petroleum Corporation ("CNPC").

The Company and its subsidiaries (the "Group") are the largest oil and gas

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producer and seller occupying a leading position in the oil and gas industry in the PRC and one of the largest companies in the PRC in terms of revenue and one of the largest oil companies in the world. The Group engages in a broad range of petroleum and gas related activities including: the exploration, development, production and sales of crude oil and natural gas; the refining, transportation, storage and marketing of crude oil and petroleum products; the production and sales of basic petrochemical products, derivative chemical products and other chemical products; and the transmission of natural gas, crude oil and refined products, and the sales of natural gas.

The American Depositary Shares (the "ADSs"), H shares and A shares of the Company were listed on the New York Stock Exchange, Inc., The Stock Exchange of Hong Kong Limited ("HKSE" or "Hong Kong Stock Exchange") and Shanghai Stock Exchange on April 6, 2000, April 7, 2000 and November 5, 2007 respectively.

Registered Chinese Name of the Company: (Chinese Characters)
English Name of the Company: PetroChina Company Limited
Legal Representative of the Company: Jiang Jiemin
Secretary to the Board: Li Huaiqi
Address: World Tower
16 Andelu
Dongcheng District
Beijing, PRC
Telephone: 86(10) 8488 6270
Facsimile: 86(10) 8488 6260
Email Address: xwzou@petrochina.com.cn

Representative on Securities Matters: Liang Gang
Address: World Tower
16 Andelu
Dongcheng District
Beijing, PRC
Telephone: 86(10) 8488 6959
Facsimile: 86(10) 8488 6260
Email address: liangg@petrochina.com.cn

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Representative of the Hong Kong Representative Office: Mao Zefeng
Address: Suite 3606, Tower 2, Lippo Centre
89 Queensway, Hong Kong
Telephone: (852) 2899 2010
Facsimile: (852) 2899 2390
Email Address: hko@petrochina.com.hk

Legal Address of the Company: World Tower
16 Andelu Dongcheng District, Beijing
The People's Republic of China
Postal Code: 100011
Internet Website: <http://www.petrochina.com.cn>
Company's Email: xwzou@petrochina.com.cn

NEWSPAPERS FOR INFORMATION DISCLOSURE:

A shares: China Securities Journal, Shanghai Securities News and Securities Times

INTERNET WEBSITE PUBLISHING THIS ANNUAL REPORT DESIGNATED BY THE CHINA

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SECURITIES REGULATORY COMMISSION:

<http://www.sse.com.cn>

COPIES OF THIS ANNUAL REPORT IS AVAILABLE AT:

World Tower 16, Andelu Dongcheng District, Beijing

PLACES OF LISTING:

| | |
|-------------|--|
| A shares: | Shanghai Stock Exchange |
| Stock Name: | PetroChina |
| Stock Code: | 601857 |
| H shares: | The Stock Exchange of Hong Kong Limited |
| Stock Code: | 857 |
| ADS: | The New York Stock Exchange, Inc. |
| Symbol: | PTR |

OTHER RELEVANT INFORMATION

First Registration Date of the Company: November 5, 1999

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| | |
|--|--|
| First Registration Place of the Company: | State Administration for Industry & Commerce |
|--|--|

| | |
|---|--------------------|
| Enterprise Legal Business Licence Registration No.: | 1000001003252(2-2) |
| Taxation Registration No. : | 110102710925462 |
| Organization No.: | 71092546-2 |

NAMES AND ADDRESSES OF AUDITORS OF THE COMPANY:

Domestic Auditors:

Name: PricewaterhouseCoopers Zhong Tian CPAs Company Limited
Address: 11th Floor PricewaterhouseCoopers Centre, 202 Hu Bin Road, Shanghai, PRC

Overseas Auditors:

Name: PricewaterhouseCoopers
Address: 22nd Floor, Prince's Building, Central, Hong Kong

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SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

1. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Unit: RMB Million

AS AT OR FOR THE YEAR ENDED DECEMBER 31,

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| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-----------|-----------|-----------|-----------|-----------|
| Turnover | 835,037 | 688,978 | 552,229 | 397,354 | 310,431 |
| Profit from operations | 199,855 | 197,976 | 192,171 | 151,138 | 101,712 |
| Profit before taxation | 204,381 | 199,173 | 193,822 | 151,244 | 100,693 |
| Taxation | (49,152) | (49,776) | (54,180) | (43,598) | (28,796) |
| Profit for the year | 155,229 | 149,397 | 139,642 | 107,646 | 71,897 |
| Attributable to: | | | | | |
| Equity holders of the Company | 145,625 | 142,224 | 133,362 | 103,843 | 69,835 |
| Minority interest | 9,604 | 7,173 | 6,280 | 3,803 | 2,062 |
| | 155,229 | 149,397 | 139,642 | 107,646 | 71,897 |
| Basic and diluted earnings per share for profit attributable to equity holders of the Company during the year (RMB) (2) | 0.81 | 0.79 | 0.75 | 0.59 | 0.40 |
| Total non-current assets | 828,956 | 709,941 | 602,172 | 516,194 | 465,514 |
| Total current assets | 231,175 | 162,222 | 175,895 | 122,253 | 91,509 |
| Total current liabilities | 198,095 | 179,879 | 153,838 | 130,525 | 122,347 |
| Total non-current liabilities | 85,689 | 74,693 | 80,562 | 64,950 | 67,782 |
| Equity | | | | | |
| Attributable to: | | | | | |
| Equity holders of the Company | 733,405 | 586,677 | 515,389 | 427,773 | 357,928 |
| Minority interest | 42,942 | 30,914 | 28,278 | 15,199 | 8,966 |
| Total equity | 776,347 | 617,591 | 543,667 | 442,972 | 366,894 |
| Other financial data | | | | | |
| Capital expenditures | (181,583) | (148,746) | (124,801) | (98,946) | (86,373) |
| Net cash from operating activities | 203,748 | 198,102 | 203,885 | 141,691 | 139,570 |
| Net cash used for investing activities | (184,205) | (158,451) | (91,576) | (102,276) | (102,549) |
| Net cash used for financing activities (provided by financing activities) | (2,648) | (71,739) | (42,634) | (39,586) | (35,593) |
| Fixed assets, net of accumulated depreciation | 762,882 | 645,337 | 563,890 | 485,612 | 442,311 |
| Total assets | 1,060,131 | 872,163 | 778,067 | 638,447 | 557,023 |
| Cash flows from operating activities per share (RMB) (3) | 1.13 | 1.11 | 1.15 | 0.81 | 0.79 |
| Net assets per share (RMB) (4) | 4.01 | 3.28 | 2.88 | 2.43 | 2.04 |

Notes:

- (1) The Company acquired the refining and petrochemical business of CNPC in 2005, and acquired 50% equity interests in CNPC Exploration and Development Company Limited in 2005. The financial statements of the Group in the relevant period has been restated in a manner identical to a pooling of interests to reflect the acquisition.
- (2) As at December 31, 2003 and 2004 respectively, basic and diluted earnings per share were calculated by dividing the net profit with the number of shares issued for each of these financial years of 175.82 billion. As at December 31, 2005, basic and diluted earnings per share were calculated by dividing the net profit with the weighted average number of shares issued for this financial year of 176.77 billion. As at December 31, 2006, basic and diluted earnings per share were calculated by dividing the net profit with the number of shares issued for this financial year of 179.02 billion. As at December 31, 2007, basic and diluted earnings per share were calculated by dividing the net profit with the weighted average number of shares issued for this financial year of 179.7 billion.
- (3) As at December 31, 2003 and 2004 respectively, cash flows from operating activities per share were calculated by dividing the cash flows from

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operating activities with the number of shares issued for each of these financial years of 175.82 billion. As at December 31, 2005, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the weighted average number of shares issued for this financial year of 176.77 billion. As at December 31, 2006, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the number of shares issued for this

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financial year of 179.02 billion. As at December 31, 2007, cash flows from operating activities per share were calculated by dividing the cash flows from operating activities with the weighted average number of shares issued for this financial year of 179.7 billion.

- (4) As at December 31, 2003 and 2004 respectively, net asset per share were calculated by dividing the shareholders' equity with the number of shares issued for each of these financial years of 175.82 billion. As at December 31, 2005 and 2006 respectively, net asset per share were calculated by dividing the shareholders' equity with the number of shares issued for this financial year of 179.02 billion. As at December 31, 2007, net asset per share were calculated by dividing the shareholders' equity with the number of shares issued for this financial year of 183.02 billion.

2. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED UNDER CAS

(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 |

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| | | | | |
|--|---------|---------|------|---------|
| Equity attributable to equity holders of the Company | 677,367 | 541,467 | 25.1 | 476,238 |
|--|---------|---------|------|---------|

(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) | |
| Diluted earnings per share | 0.75 | 0.76 | (1.3) | |
| Basic earnings per share after deducting non-recurring profit/loss items | 0.76 | 0.77 | (1.3) (5.3) | |
| Fully diluted return on net assets (%) | 19.9 | 25.2 | percentage point) (3.5) | |
| Weighted average return on net assets (%) | 22.8 | 26.3 | percentage point) | |
| Fully diluted return on net assets after deducting non-recurring profit/loss items (%) | 20.1 | 25.5 | (5.4) percentage point) | |
| Weighted average return on net assets after deducting non-recurring profit/loss items (%) | 23.0 | 26.7 | (3.7) percentage point) | |
| Net cash flows per share from operating activities | 1.17 | 1.15 | 1.7 | |

| 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 |

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(3) Non-recurring profit/loss items

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 |

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| | |
|---|--------------|
| Government grants | (388) |
| Tax effect of non-recurring profit/loss items | (443) |
| Total | 1,293 |

* Excluding exploratory dry holes

3. DIFFERENCES BETWEEN CAS AND IFRS

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 | Please refer to the supplemental information by the management set out after the financial statements of the Group prepared under CAS in this 2007 Annual Report for details | |

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CHANGES IN SHARE CAPITAL AND INFORMATION ON SHAREHOLDERS

1. CHANGES IN SHAREHOLDINGS

Unit: Shares

| | PRE-MOVEMENT | | INCREASE/DECREASE (+/-) | | | |
|---|------------------|----------------|-------------------------|-------------|---------------|--------|
| | NUMBER OF SHARES | PERCENTAGE (%) | NEW ISSUE | CONVERSION | | |
| | | | | BONUS ISSUE | FROM RESERVES | OTHERS |
| I Shares with selling restrictions | 157,922,077,818 | 88.21 | +1,000,000,000 | -- | -- | -- |
| 1. State-owned shares | 157,922,077,818 | 88.21 | -- | -- | -- | -- |
| 2. Shares held by state-owned companies | -- | -- | -- | -- | -- | -- |
| 3. Shares held by other domestic investors of which: | -- | -- | +1,000,000,000 | -- | -- | -- |
| Shares held by companies other than state-owned companies | -- | -- | +1,000,000,000 | -- | -- | -- |

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| | | | | | | |
|--|-----------------|--------|----------------|----|----|----|
| 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 | -- | -- | -- |
| 1. RMB-denominated ordinary shares | -- | -- | +3,000,000,000 | -- | -- | -- |
| 2. Shares traded in non-RMB currencies and listed domestically | -- | -- | -- | -- | -- | -- |
| 3. Shares listed overseas | 21,098,900,000 | 11.79 | -- | -- | -- | -- |
| 4. Others | -- | -- | -- | -- | -- | -- |
| III Total Shares | 179,020,977,818 | 100.00 | +4,000,000,000 | -- | -- | -- |

POST-MOVEMENT

| | NUMBER OF SHARES | PERCENTAGE (%) |
|--|------------------|----------------|
| I Shares with selling restrictions | 158,922,077,818 | 86.83 |
| 1. State-owned shares | 157,922,077,818 | 86.29 |
| 2. Shares held by state-owned companies | -- | -- |
| 3. Shares held by other domestic investors | 1,000,000,000 | 0.54 |
| of which: | | |
| Shares held by companies other than state-owned companies | 1,000,000,000 | 0.54 |
| Shares held by domestic natural persons | -- | -- |
| 4. Shares held by foreign investors | -- | -- |
| II Shares without selling restrictions | 24,098,900,000 | 13.17 |
| 1. RMB-denominated ordinary shares | 3,000,000,000 | 1.64 |
| 2. Shares traded in non-RMB currencies and listed domestically | -- | -- |
| 3. Shares listed overseas | 21,098,900,000 | 11.53 |
| 4. Others | -- | -- |
| III Total Shares | 183,020,977,818 | 100.00 |

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2. 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 RESTRICTION 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 |
|------------------------|---|---|---|---|---|
| CNPC | 157,922,077,818 | 0 | 0 | 157,922,077,818 | In October 2007, offered its RMB-ordinary shares to the public for t. At that time, CNPC stated that "for a period commencing from the listing of the A Company on the S Exchange, it will not or entrust other management of the it holds, or all to be repurchase Company. However held by CNPC, wh subsequently lis stock exchanges necessary approv are not subject restriction of t lock-up period." |
| Shares placed off-line | 0 | 0 | 1,000,000,000 | 1,000,000,000 | In October 2007, offered its RMB-ordinary shares to the public for t. Shares that have with target plac subject to a loc three months fro listing of the s Shanghai Stock E |
| Total | 157,922,077,818 | 0 | 1,000,000,000 | 158,922,077,818 | -- |

3. ISSUE AND LISTING OF SECURITIES:

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(1) Issue of shares in the past three years

In September 2005, the Company issued 3,196,801,818 new H shares at the price of HK\$6.00 per share. Concurrently, CNPC sold 319,680,182 state-owned shares. An aggregate of 3,516,482,000 shares were issued and sold. Upon completion of the issue, the total share capital of the Company amounted to 179,020,977,818 shares, of which 157,922,077,818 shares were held by CNPC, representing approximately 88.21% of the total share capital of the Company, and 21,098,900,000 shares were held by holders of H shares, representing approximately 11.79% of the total share capital of the Company.

In October 2007, the Company issued 4 billion A shares at an issue price of RMB16.7 per share. The shares were listed on the Shanghai Stock Exchange on November 5, 2007. Upon completion of the issue, the total share capital of the Company amounted to 183,020,977,818 shares, of which 157,922,077,818 shares were held by CNPC, representing approximately 86.29% of the total share capital of the Company, and 25,098,900,000 shares were held by public investors, representing approximately 13.71% of the total share capital of the Company. Of the shares held by public investors, 4,000,000,000 shares were held by holders of A shares, representing approximately 2.18% of the total share capital of the Company, and 21,098,900,000 shares were held by holders of H shares, representing approximately 11.53% of the total share capital of the Company..

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(2) Changes in the Total Number of Shares and the Shareholding Structure of the Company

During the reporting period, the Company issued 4 billion A shares. Upon completion of the issue and listing of the A shares, the total share capital of the Company increased from 179,020,977,818 shares to 183,020,977,818 shares..

(3) Shares held by Employees

During the reporting period, no shares for employees of the Company were in issue.

4. NUMBER OF SHARES HELD BY THE TOP TEN SHAREHOLDERS OF SHARES WITH SELLING RESTRICTIONS AND THE SELLING RESTRICTIONS

Unit: Shares

| NUMBER | NAME OF SHAREHOLDERS OF SHARES WITH SELLING RESTRICTIONS | NUMBER OF SHARES WITH SELLING RESTRICTIONS HELD | DATE OF LISTING AND TRADING | NUMBER OF ADDITIONAL SHARES THAT CAN BE LISTED AND TRADED |
|--------|--|---|-----------------------------|---|
| 1 | CNPC(1) | 157,922,077,818 | November 5, 2010 | 0 |
| 2 | China Life Insurance Company Limited- Dividends- Group Dividends-005L-FH001 Shanghai | 25,069,000 | February 5, 2008 | 0 |
| 3 | China Life Insurance Company Limited- Dividends- Personal | | | |

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| | | | | |
|----|---|------------|------------------|---|
| | Dividends-005L-FH002 Shanghai | 25,069,000 | February 5, 2008 | 0 |
| 4 | China Life Insurance Company Limited-Traditional-Ordinary Insurance Product-005L-CT001 Shanghai | 25,069,000 | February 5, 2008 | 0 |
| 5 | China Life Insurance (Group) Company- Traditional-Ordinary Insurance Product | 25,069,000 | February 5, 2008 | 0 |
| 6 | Ping An Life Insurance Company of China, Ltd.-Proprietary Funds | 25,069,000 | February 5, 2008 | 0 |
| 7 | New China Life Insurance Company Limited-Dividends-Group Dividends-018LFH001 Shanghai | 25,069,000 | February 5, 2008 | 0 |
| 8 | Ping An Life Insurance Company of China, Ltd.-Dividends-Personal Insurance Dividends | 25,069,000 | February 5, 2008 | 0 |
| 9 | Ping An Life Insurance Company of China, Ltd.-Traditional-Ordinary Insurance Products | 25,069,000 | February 5, 2008 | 0 |
| 10 | Ping An Life Insurance Company of China, Ltd.-Universal-Personal Universal | 25,018,864 | February 5, 2008 | 0 |

Note 1: Shares held by CNPC, which may be listed on overseas stock exchanges after obtaining necessary approvals in the PRC, are not subject to the 36-month lock-up period. .

5. 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

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of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

(1) Shareholdings of the top ten shareholders

Unit: Shares

PERCENTAGE

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| NAME OF SHAREHOLDERS | NATURE OF SHARES | OF SHAREHOLDING (%) | NUMBER OF SHARES HELD | NUMBER OF SHARES WITH SELLING RESTRICTIONS |
|--|--------------------|---------------------|-----------------------|--|
| CNPC(1) | State-owned shares | 86.29 | 157,922,077,818 | 157,922,077,818 |
| HKSCC Nominees Limited(2) | H shares | 11.44 | 20,937,754,152 | 0 |
| China Life Insurance (Group) Company-Traditional- Ordinary Insurance Product (3) | A shares | 0.031 | 56,797,000 | 25,069,000 |
| China Life Insurance Company Limited - Dividends - Personal Dividends - 005L -FH002 Shanghai(3) | A shares | 0.016 | 30,238,570 | 25,069,000 |
| China Life Insurance Company Limited - Traditional - Ordinary Insurance Product - 005L - CT001 Shanghai(3) | A shares | 0.014 | 25,069,000 | 25,069,000 |
| China Life Insurance Company Limited - Dividends - Group Dividends - 005L -FH001 Shanghai(3) | A shares | 0.014 | 25,069,000 | 25,069,000 |
| Ping An Life Insurance Company of China, Ltd. - Traditional - Ordinary Insurance Products(3) | A shares | 0.014 | 25,069,000 | 25,069,000 |
| New China Life Insurance Company Limited-Dividends-Group Dividends-018L FH001 Shanghai(3) | A shares | 0.014 | 25,069,000 | 25,069,000 |
| Ping An Life Insurance Company of China, Ltd. - Proprietary Funds(3) | A shares | 0.014 | 25,069,000 | 25,069,000 |
| Ping An Life Insurance Company of China, Ltd.-Dividends-Personal Insurance Dividends(3) | A shares | 0.014 | 25,069,000 | 25,069,000 |

Notes:

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.
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.

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3. Placees 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.

(2) Shareholdings of top ten shareholders of shares without selling restrictions

Unit: Shares

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

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-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 Life Insurance 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.

(3) Shareholdings of Substantial Shareholders of H Shares

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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:

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| NAME OF SHAREHOLDER | NUMBER OF SHARES | PERCENTAGE OF SUCH SHARES IN THE SAME CLASS OF THE ISSUED SHARE CAPITAL (%) | PERCENTAGE OF TOTAL SHARE CAPITAL (%) |
|------------------------|-------------------|--|---|
| ----- | ----- | ----- | ----- |
| UBS AG (Note) | 1,089,453,631 (L) | 5.16 (L) | 0.60 |
| | 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.

6. INFORMATION ON CONTROLLING SHAREHOLDER AND THE ULTIMATE CONTROLLER

There was no change in the controlling shareholder or the ultimate controller during the reporting period.

(1) Controlling shareholder

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 (Chinese Character). 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.

(2) Except for HKSCC Nominees Limited and CNPC, no other legal person holds 10% or more of the shares in the Company.

(3) Ultimate controller

CNPC is the ultimate controller of the Company.

(4) The equity interest structure and controlling relationship between the Company and the ultimate controller

| |
|-------|
| ----- |
| CNPC |
| ----- |

|
|
| 86.29%
|
|
V

| PetroChina Company Limited |

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CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to submit to you the annual report of the Company for the year ended December 31, 2007.

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 main performance indicators of the Group have achieved record high again and the overall business strengths of the Group were enhanced markedly. In accordance with CAS, for the twelve months ended December 31, 2007, profit before taxation of the Group was RMB192,825 million, representing an increase of 1.6% compared with the previous year. Net profit attributable to equity holders of the Company was RMB134,574 million, representing a decrease of 1.2% compared with the previous year. Basic earnings per share for profit attributable to equity holders of the Company during the year amounts to RMB0.75. In accordance with IFRS, 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 was RMB145,625 million, representing an increase of 2.4% compared with the previous year. 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.

The Board of Directors has recommended to pay final dividends of RMB0.156859 per share (together with the interim dividend of RMB0.205690 per share, the annual dividend for 2007 will be RMB0.362549 per share), subject to shareholders' review and approval at the forthcoming annual general meeting to be held on May 15, 2008.

BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

The annual general meeting of the Company for 2006 was held in Beijing on May 16, 2007. Articles 89 and 109 of the Articles of Association of the Company (the "Articles of Association") provide that "directors shall be elected at the shareholders' meeting for a term of three (3) years and may serve consecutive terms if re-elected upon the expiry of their term of office" and "the supervisory committee shall compose of seven (7) supervisors and one of the members of the supervisory committee shall act as the chairman. Each supervisor shall serve for a term of three (3) years, which is renewable upon re-election and re-appointment", respectively. The term of office of four Directors and two

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Supervisors expired on May 17,

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2007. Mr Chen Geng notified the Board that he would retire from his office and would not seek for re-election. Mr Xu Fengli notified the Company that he would retire from his office and would not seek for re-election. Pursuant to the provisions of Articles 51 (3) and (13) of the Company's Articles of Association regarding the "election and re-election of supervisors nominated by the shareholders" shall be subject to the approval at the shareholders' meetings and "review of proposals presented by shareholders representing 5% or more of the voting shares of the Company" at the shareholders' meetings, resolutions for the re-election of three Directors and two Supervisors were considered and approved at the annual general meeting. It was resolved that each of Mr Jiang Jiemin, Mr Zhou Jiping and Mr Duan Wende be re-elected as Directors and Mr Sun Xianfeng and Mr Zhang Jinzhu be re-elected and elected as Supervisors respectively.

Given that Mr Chen Geng retired from his office as Director and Chairman of the Company, in accordance with Articles 88 and 89 of the Articles of Association of the Company which provide that "the board shall have one chairman" and "the chairman shall be elected and removed by more than one-half of all the members of the board of directors", an extraordinary meeting of the Board of Directors was convened on May 20, 2007 to consider and pass the resolution to elect Mr Jiang Jiemin as the chairman of the Board of Directors which was approved by way of written resolution.

In addition, the Articles of Association of the Company provides that the Board of Directors shall consist of thirteen Directors. The Board of Directors currently consists of eleven Directors. To ensure the normal operation of the Board of Directors, the Company will arrange for election of two Directors in accordance with the procedures set out in the Articles of Association of the Company.

On June 19, 2007, at the seventh meeting of the Third Session of the Board of Directors, the Company appointed each of Mr Sun Longde, Mr Shen Diancheng and Mr Liu Hongbin as Vice President, Mr Zhou Mingchun as the Chief Financial Officer and Mr Lin Aiguo as the Chief Engineer of the Company. On November 20, 2007, at the ninth meeting of the Third Session of the Board of Directors, the Company appointed Mr Li Hualin as Vice President of the Company.

I would like to take this opportunity to express my gratitude to Mr Chen Geng and Mr Xu Fengli for their contribution to the Company during their term of office. I would also like to express my heartfelt thanks to all shareholders for their support and members of the Board of Directors and the Supervisory Committee and all staff of the Company for their close co-operation and hard work.

BUSINESS PROSPECTS

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 environments,

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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 serviced stations. The Group will endeavour to improve the marketing quality and

operating efficiency of the sale of high quality lubricants business. Increasing

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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 emphasize two 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.

/s/ Jiang Jiemin

Jiang Jiemin
Chairman
Beijing, the PRC
March 19, 2008

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BUSINESS OPERATING REVIEW

1. MARKET REVIEW

(1) Crude Oil Market Review

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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

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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 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

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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

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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 the 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

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| | 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

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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 |

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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

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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 |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

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 this 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 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.

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| | 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) | | | | | | |

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| | | | | | | |
|--------------|--------|--------|------|--------|--------|-------|
| 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

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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

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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

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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

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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.

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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

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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.

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(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 |

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| | | | |
|---|---------|---------|------|
| 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, plants 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

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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.

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(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.

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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:

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| | 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

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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

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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

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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.

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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:

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| | 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 | AS AT | PERCENTAGE |
|---|-------------------|-------------------|------------|
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 | 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 |

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For reasons for changes, please refer to the section headed "Management's, Discussion and Analysis of Financial Position and Results of Operations" in this annual report.

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(3) 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 |
|----------------------------|--|---|---------|---|---|
| ----- | ----- | ----- | ----- | ----- | ----- |
| ----- | RMB MILLION | RMB MILLION | % | % | % |
| Exploration and production | 455,244 | 179,380 | 49.2 | 10.9 | 29.8 |
| Refining and marketing | 662,322 | 620,758 | 3.9 | 23.8 | 22.9 |
| Chemicals and marketing | 99,864 | 83,699 | 15.8 | 26.2 | 29.6 |
| Natural gas and pipeline | 49,299 | 35,524 | 26.5 | 27.6 | 26.9 |
| Other | 871 | 211 | -- | -- | -- |
| Inter-segment elimination | (458,484) | (457,551) | -- | -- | -- |
| Total | 809,116 | 462,021 | 34.5 | 21.5 | 36.1 |

* 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 |
|---|-----------------------|--------------|------------------------------|-----------------------------------|
| ----- | ----- | ----- | ----- | ----- |
| ----- | RMB MILLION | % | RMB MILLION | RMB MILLION |
| Daqing Oilfield Company Limited | 47,500 | 100.00 | 142,211 | 28,228 |
| CNPC Exploration and Development Company Limited | 100 | 50.00 | 69,161 | 24,698 |
| Dalian West Pacific Petrochemical Co., Ltd. | USD258 million | 28.44 | 14,223 | 10,890 |
| China Marine Bunker (PetroChina) Co., Ltd. | 1,000 | 50.00 | 6,254 | 4,012 |

SIGNIFICANT EVENTS

1. MATERIAL LITIGATION AND ARBITRATION EVENTS

The Company was not involved in any material litigation or arbitration during the reporting period.

2. SHAREHOLDING IN OTHER COMPANIES

(1) Shareholding interests of the Company in other listed companies

There are no matters which the Company is required to disclose for the reporting period.

(2) Status of shareholding in commercial banks, securities companies, insurance companies, trust companies and futures companies

There are no matters which the Company is required to disclose for the reporting period.

3. ACQUISITIONS, DISPOSALS, MERGERS DURING THE REPORTING PERIOD

In 2007, the Company has through its wholly-owned subsidiary completed the acquisition of the entire interest by way of merger in Jinzhou Petrochemical Company Limited ("Jinzhou Petrochemical"), Liaohe Jinma Oilfield Company Limited ("Liaohe Jinma") and Jilin Chemical Industrial Company Limited ("Jilin Chemical") which has resolved the issue of competition within the Group, regulated connected transactions and improved operation efficiency. The above transactions did not have any impact on the continuity of operation and management stability of the Company. Each of Jinzhou Petrochemical, Liaohe Jinma and Jilin Chemical completed the cancellation of their business registration in 2007.

The Company acquired the assets engaged in the risk management services business of CNPC which constituted an one-off connected transaction of the Company. Please refer to the paragraph headed "one-off connected transactions" in the section headed "Connected Transactions" in this annual report. The consideration for the acquisition was based on valuation. As at the end of the reporting period, ownership of the relevant assets has been fully transferred and the contractual rights and obligations thereunder have also been fully transferred. 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.

The Company disposed of 70% equity interests in China National United Oil Corporation to CNPC. Please refer to the paragraph headed "one-off connected transactions" in the section headed "Connected Transactions" in this annual report. The consideration for the disposal was based on valuation. As at the end of the reporting period, ownership of the relevant assets has been fully transferred and the contractual rights and obligations thereunder have also been fully transferred. Net profit contributed to the Group since the beginning of the year to the date of the disposal was RMB115 million and profit from the disposal was RMB292 million. The above transaction did not have any impact on the continuity of operation and management stability of the Group.

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4. IMPLEMENTATION OF STOCK OPTION PLANS DURING THE REPORTING PERIOD

Since the initial public offering of H shares on April 7, 2000, the Company has implemented a stock option plan, and as of the end of the reporting period, none of the options thereunder have been exercised. For details of the implementation of the stock option plan, please refer to note 13 to the financial statements prepared in accordance with CAS in this annual report.

5. SIGNIFICANT CONNECTED TRANSACTIONS DURING THE REPORTING PERIOD

Please refer to the section "Connected Transactions" in this annual report.

6. MATERIAL CONTRACTS AND THE PERFORMANCE THEREOF

(1) During the reporting period, there were no trusteeship, sub-contracting and leasing of properties of other companies by the Company which would contribute profit to the Company of 10% or more of its total profits for the year.

(2) 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 |
| | 77 | 203 |
| | --- | --- |

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.

(3) The Company did not entrust any other person to carry out money management during the reporting period nor were there any such entrustment that was extended from prior period to the reporting period.

(4) Other material contracts

Save as disclosed in this annual report, during the reporting period, the Company did not enter into any material contract which requires disclosure.

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7. PERFORMANCE OF COMMITMENTS

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>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>As at December 31, 2007, CNPC had obtained full right certificates in relation to 27,554 out of land and some building ownership certificates of buildings pursuant to the undertaking in the Agreement, but has completed none of the necessary procedures for the service stations located on collectively-owned land. The use of and the operations activities at the above-mentioned parcels of stations and buildings are not affected by the relevant land use right certificates or individual ownership certificates have not been obtained. The relevant governmental procedures have not been completed. The outcome of the above events will not have any effect on the operating results and the financial position of the Group.</p> <p>At present, CNPC operated the following businesses which are identical or similar to the core businesses of the Group:</p> <ol style="list-style-type: none"> Overseas operations which are identical or similar to the core businesses of the Group. <p>CNPC has overseas operations in relation to exploration, production of crude oil and natural gas as well as storage and transportation of petroleum, chemical and petroleum products. CNPC has oil and gas exploration and development operations in many overseas countries.</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 exploration and development projects to the Company.</p> <ol style="list-style-type: none"> The existing projects of CNPC (Hong Kong) <p>Prior to the Company's listing on the Hong Kong Stock Exchange, CNPC (Hong Kong) Limited had three projects at blocks 9-1 to 9-5 of the Karamay Oilfield of the Jiapu Oilfield in Liaobe; (3) Sukothai Oilfield with production right concession. After the establishment of the Company, CNPC (Hong Kong) Limited engaged in overseas projects.</p> <p>Upon establishment of the Company, CNPC's interests in (Hong Kong) Limited were not injected to the Company. CNPC (Hong Kong) Limited had businesses both onshore and overseas. Without prior consent of the independent directors of CNPC (Hong Kong) Limited, the overseas businesses of (Hong Kong) Limited may not be restructured and</p> |

restructuring of the Company.

To date, compared to the Company, the total assets of CNPC (Hong Kong) Limited is relatively small. The businesses of each of CNPC (Hong Kong) Limited will not constitute substantive competition with the Company.

3. Five sets of chemical production facilities

Five sets of chemical production facilities, including an advanced alcohol facility, an acrylonitrile facility, a polybutadiene rubber facility, an acrylic fiber facility and a facility comprising of four sets of facilities, have been wholly owned by CNPC since the Company's listing. Other than the advanced alcohol facility which is in production, the rest of the five sets of facilities are in normal operation.

Given the five sets of chemical production facilities are relatively small in scale, low in productivity and low profitability as compared with similar facilities, they will not constitute substantive competition with the principal businesses of the Group.

4. Service stations wholly owned by CNPC or jointly owned by CNPC and third parties

CNPC also owns a number of service stations (those service stations were not included in the Company due to ambiguity in the ownership). Given the refined oil products of these service stations are small as compared with that of the Company, they will not constitute substantive competition with the Company.

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."

CNPC has not violated the relevant undertaking.

8. ENGAGEMENT AND DISENGAGEMENT OF FIRM OF ACCOUNTANTS

The Company has not changed its firm of accountants during the reporting period.

During the reporting period, the Company has continued engaging PricewaterhouseCoopers Zhong Tian CPAs Company Limited as the domestic auditors and has continued engaging PricewaterhouseCoopers as the overseas auditors.

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Remunerations in respect of the audit work amounts to RMB119 million, mainly for the purpose of providing auditing services for the Company's domestic and international needs.

Up to the end of the reporting period, PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers have served the Company for a consecutive 9 years on auditing.

9. PENALTIES ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER AND REMEDIES THERETO

During the reporting period, none of the Directors, Supervisors, senior management, controlling shareholders or de facto controllers were subject to any investigation by the China Securities Regulatory Commission, nor was there any administrative penalty, denial of participation in the securities market or deemed unsuitable to act as directors thereby.

10. OTHER SIGNIFICANT EVENTS

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.

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CONNECTED TRANSACTIONS

As at December 31, 2007, CNPC directly owns an aggregate of approximately 86.29% of the shares of the Company and therefore transactions between the Group and CNPC constitute connected transactions between the Group and CNPC under the Listing Rules and the listing rules of the Shanghai Stock Exchange ("SSE Listing Rules"). As at December 31, 2007, CNPC (Hong Kong) Limited (stock code: 135) ("CNPC (HK)") is a 51.89% owned subsidiary of CNPC. Therefore, transactions between the Group and CNPC (HK) constitute connected transactions of the Group under the Listing Rules and SSE Listing Rules. As Beijing Gas Group Co., Ltd. ("Beijing Gas") and China Railway Materials and Suppliers Corporation ("CRMSC") are respectively a substantial shareholder (as defined under the Listing Rules) of Beijing Huayou Gas Corporation Limited and PetroChina & CRMSC Oil Marketing Company Limited, the Group's subsidiaries, pursuant to the Listing Rules, the transactions between the Group and Beijing Gas and CRMSC respectively constitute connected transactions of the Group. China National Oil and Gas Exploration and Development Corporation ("CNODC"), a state-owned enterprise the entire interest of which is owned by CNPC, is interested in 50% interest in CNPC Exploration and Development Company Limited ("CNPC E&D"). The Company is interested in the remaining 50% interest in CNPC E&D. Pursuant to the Listing Rules, CNPC E&D is a connected person of the Company and any transaction between the Group and CNPC E&D constitutes connected transaction of the Group. On December 28, 2006, the Group became interested in 67% equity interest in PetroKazakhstan Inc. ("PKZ") through CNPC E&D. Pursuant to the Listing Rules, any subsidiaries of CNPC E&D being a connected person will also be treated as connected person(s) of the Group. Therefore, transactions between the Group and PKZ constitute connected transactions of the Group.

- ONE-OFF CONNECTED TRANSACTIONS

1. DISPOSAL OF EQUITY INTERESTS IN CHINA NATIONAL UNITED OIL CORPORATION

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On March 18, 2007, the Company entered into an equity transfer agreement with CNPC, pursuant to which the Company has agreed to dispose 70% of the equity interests in China National United Oil Corporation to CNPC for a consideration of approximately RMB1.01 billion. As CNPC is the controlling shareholder of the Company, CNPC is a connected person of the Company under the Listing Rules and therefore such equity transfer constitutes a connected transaction of the Company. Details of the transaction were announced by the Company on March 18, 2007 and in the circular to the shareholders dated March 30, 2007. The transaction was approved by the independent shareholders of the Company at the annual general meeting held on May 16, 2007.

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2. ACQUISITION OF ASSETS OF THE RISK OPERATION SERVICE BUSINESS FROM CNPC

On August 23, 2007, the Company entered into an acquisition agreement with CNPC, pursuant to which the Company has agreed to acquire the assets of the risk operation service business from CNPC. Pursuant to the acquisition agreement, the Company has paid CNPC a consideration in the sum of RMB1,652,279,200 (approximately HK\$1,700,225,600), representing the value of the net assets of the risk operation service business as at December 31, 2006. The parties shall adjust the consideration by reference to the net assets generated by the risk operation service business for the period from January 1, 2007 to August 31, 2007 as shown in the management accounts for that period. As CNPC is the controlling shareholder of the Company, CNPC is a connected person of the Company under the Listing Rules and therefore such asset acquisition constitutes a connected transaction of the Company. Details of the transaction were announced by the Company on the website of the Hong Kong Stock Exchange on August 23, 2007.

3. CAPITAL INJECTION CONCERNING CNPC EXPLORATION AND DEVELOPMENT COMPANY LIMITED

On December 27, 2007, the Company entered a "Capital Injection Agreement Concerning CNPC Exploration and Development Company Limited" with CNODC and CNPC E&D. Pursuant to the agreement, the Company and CNODC, as shareholders of CNPC E&D, shall inject capital in the aggregate amount of RMB16,000 million (approximately HK\$16,944 million) into CNPC E&D. The Company and CNODC shall each make a capital injection of RMB8,000 million (approximately HK\$8,472 million) in cash, payable in one lump sum. Upon completion of the capital injection, the Company and CNODC will continue to hold 50% of the shares of CNPC E&D respectively.

As CNODC is a wholly-owned subsidiary of CNPC, the controlling shareholder of the Company, CNODC is a connected person of the Company pursuant to the SSE Listing Rules and the Listing Rules. As CNODC holds 50% of the shares of CNPC E&D and CNPC E&D is a non-wholly owned subsidiary of the Company, CNPC E&D is also a connected person of the Company under the Listing Rules. Therefore, the capital injection by the Company and CNODC into CNPC E&D also constitutes a connected transaction of the Company under the SSE Listing Rules and the Listing Rules. Details of the transaction were announced by the Company on the websites of the Hong Kong Stock Exchange and the Shanghai Stock Exchange on December 27, 2007.

- CONTINUING CONNECTED TRANSACTIONS

(I) CONTINUING CONNECTED TRANSACTIONS WITH CNPC

The Group and CNPC continue to carry out certain existing continuing

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connected transactions. The Company sought independent shareholders' approval at the general meeting held on November 8, 2005 for a renewal of the existing continuing connected transactions and the new continuing connected transactions and proposed the new caps for existing continuing

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connected transactions and the new continuing connected transactions for January 1, 2006 to December 31, 2008. The Company further sought independent shareholders' approval at the general meeting held on November 1, 2006 for a renewal of the caps for the existing continuing connected transactions for January 1, 2006 to December 31, 2008 which were previously approved by shareholders at the general meeting held on November 8, 2005.

The Group and CNPC will continue to carry out the existing continuing connected transactions referred to in the following agreements:

1. COMPREHENSIVE PRODUCTS AND SERVICES AGREEMENT, FIRST SUPPLEMENTAL COMPREHENSIVE AGREEMENT AND SECOND SUPPLEMENTAL COMPREHENSIVE AGREEMENT

(1) The Group and CNPC continue to implement the Comprehensive Products and Services Agreement ("Comprehensive Agreement") entered into on March 10, 2000 for the provision (i) by the Group to CNPC and (ii) by CNPC to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its subsidiary companies and affiliates. The Comprehensive Agreement has been amended by the First Supplemental Comprehensive Agreement and the Second Supplemental Comprehensive Agreement.

The term of the Comprehensive Agreement was initially 10 years starting from the date when the Company's business license was issued. This term has been amended by the Second Supplemental Comprehensive Agreement to 3 years commencing from January 1, 2006.

During the term of the Comprehensive Agreement, termination of the product and service implementation agreements described below may be effected from time to time by the parties to the product and service implementation agreements providing at least 6 months' written notice of termination in relation to any one or more categories of products or services. Further, in respect of any products or services already contracted to be provided, termination may not take place until after such products and services have been provided.

(A) Products and Services to be provided by the Group to CNPC

Under the Comprehensive Agreement, products and services to be provided by the Group to CNPC include such products as refined products, chemical products, natural gas, crude oil and such services as relating to the supply of water, electricity, gas and heating, quantifying and measuring and quality inspection and other products and services as may be requested by the CNPC Group for its own consumption, use or sale from time to time.

(B) Products and Services to be provided by CNPC to the Group

More products and services are to be provided by CNPC to the Group, both in terms of quantity and variety, than those to be provided by the Group to CNPC. Products and services to be provided by CNPC to the Group have been grouped together and categorised according to the following types of products and services:

- Construction and technical services, including but not limited to

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exploration technology service, downhole operation service, oilfield construction service, oil refinery construction service and engineering and design service;

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- Production services, including but not limited to water supply, electricity generation and supply, gas supply and communications;
- Supply of materials services, including but not limited to purchase of materials, quality control, storage of materials and delivery of materials
- Social services, including but not limited to security services, education and hospitals;
- Ancillary services, including but not limited to property management, training Centres and guesthouses; and
- Financial services, including but not limited to loans and deposits services.

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

- (a) state-prescribed prices; or
- (b) where there is no state-prescribed price, then according to the relevant market prices; or
- (c) where neither (a) nor (b) is applicable, then according to:
 - (i) the actual cost incurred; or
 - (ii) the agreed contractual price.

In particular, the Comprehensive Agreement stipulates, among other things, that:

- (i) the loans and deposits shall be provided at prices determined in accordance with the relevant interest rate and standard for fees as promulgated by the People's Bank of China. Such prices must also be more favourable than those provided by independent third parties; and
- (ii) the guarantees shall be provided at prices not higher than the fees charged by the state policy banks in relation to the provision of guarantees. References must also be made to the relevant state-prescribed price and market price.

(2) First Supplemental Comprehensive Agreement

The First Supplemental Comprehensive Agreement dated June 9, 2005 was entered principally to amend the definitions of "state-prescribed price" and "market price" in the Comprehensive Agreement in view of the characteristics of overseas business and to amend the term of the Comprehensive Agreement to three

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years. The First Supplemental Comprehensive Agreement took effect on December 19, 2005.

(3) Second Supplemental Comprehensive Agreement

The Second Supplemental Comprehensive Agreement entered into by CNPC and the Company on September 1, 2005 provides for certain new continuing connected transactions between the Company and certain companies in which both the Company and CNPC are shareholders, and where CNPC and/or its subsidiaries and/or affiliates (individually or together) is/are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such company ("Jointly-owned Companies"). In the Second

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Supplemental Comprehensive Agreement, CNPC and the Company agreed to amend certain terms of the Comprehensive Agreement, including, among other things, that:

- both CNPC and the Company shall provide and shall procure their respective entities including their subsidiaries, branches and other relevant units to provide products and services in accordance with the terms and principles of the Comprehensive Agreement;
- the CNPC Group will provide certain risk operation services as part of the construction and technical services to the Group, and these include the provision of exploration, production and other relevant services within certain and specific reserves of the Company with exploration and exploitation difficulties;
- the Group will provide certain financial assistance to the Jointly-owned Companies including entrustment loans and guarantees;
- the Jointly-owned Companies will provide certain financial assistance to the Group including entrustment loans and guarantees; and

Under the Second Supplemental Comprehensive Agreement, the products and services shall be provided at prices determined according to the pricing principles for the corresponding products or services under the Comprehensive Agreement (as amended).

The Second Supplemental Comprehensive Agreement has taken effect on January 1, 2006.

2. PRODUCT AND SERVICE IMPLEMENTATION AGREEMENTS

According to the current arrangements, from time to time and as required, individual product and service implementation agreements may be entered into between the relevant service companies and affiliates of CNPC or the Group providing the relevant products or services, as appropriate, and the relevant members of the Group or CNPC, requiring such products or services, as appropriate.

Each product and service implementation agreement will set out the specific products and services requested by the relevant party and any detailed technical and other specifications which may be relevant to those products or services. The product and service implementation agreements may only contain provisions which are in all material respects consistent with the binding principles and guidelines and terms and conditions in accordance with which such products and

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services are required to be provided as contained in the Comprehensive Agreement.

As the product and service implementation agreements are simply further elaborations on the provision of products and services as contemplated by the Comprehensive Agreement, they do not as such constitute new categories of connected transactions.

3. LAND USE RIGHTS LEASING CONTRACT

The Company and CNPC continue to implement the Land Use Rights Leasing Contract entered into on March 10, 2000 under which CNPC has leased a total of 42,476 parcels of land in connection with all aspects of the operations and business of the Company covering an aggregate area of approximately 1,145 million square metres, located throughout the PRC, to the Company for a term of 50 years at an annual fee of RMB2 billion. The total fee payable for

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the lease of all such property may, after the expiration of 10 years from the date of the Land Use Rights Leasing Contract, be adjusted (to reflect market conditions prevalent at such time of adjustment, including the then prevailing marketing prices, inflation or deflation (as applicable) and such other factors considered as important by both parties in negotiating and agreeing to any such adjustment) by agreement between the Company and CNPC. In addition, any governmental, legal or other administrative taxes and fees required to be paid in connection with the leased properties will be borne by CNPC. However, any additional amount of such taxes payable as a result of changes in the PRC government policies after the effective date of the contract shall be shared proportionately on a reasonable basis between CNPC and the Company.

4. BUILDINGS LEASING CONTRACT AND BUILDINGS SUPPLEMENTARY LEASING AGREEMENT

The Company and CNPC continue to implement the Buildings Leasing Contract entered into on March 10, 2000 pursuant to which CNPC has leased to the Company a total of 191 buildings covering an aggregate of area of approximately 269,770 square metres, located throughout the PRC for the use by the Company for its business operation including the exploration, development and production of crude oil, the refining of crude oil and petroleum products, the production and sale of chemicals, etc. The 191 buildings were leased at a price of RMB145 per square metre per year, that is, an aggregate annual fee of RMB39,116,650 for a term of 20 years. The Company is responsible for the payment of any governmental, legal or other administrative taxes and maintenance charges required to be paid in connection with these 191 buildings. The details of the buildings leased to the Company by CPC are set out in the Buildings Leasing Contract.

Further to the Buildings Leasing Contract mentioned above, the Company entered into a Supplemental Buildings Leasing Agreement (the "Supplemental Buildings Agreement") with CNPC on September 26, 2002 under which CNPC agreed to lease to the Company another 404 buildings in connection with the operation and business of the Company, covering an aggregate of 442,730 square meters. Compared to the Buildings Leasing Contract, the increase in the units being leased in the Supplemental Buildings Agreement is mainly attributable to the expansion of the Company's operations mainly in the areas such as oil and natural gas exploration, the West-East Gas Pipeline Project and the construction of the northeast refineries and chemical operation base. The total rent payable under the Supplemental Buildings Agreement amounts to RMB157,439,540 per annum. The Company and CNPC will, based on any changes in their production and

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operations, and changes in the market price, adjust the sizes and quantities of buildings leased under the Buildings Leasing Contract as well as the Supplemental Buildings Agreement every three years. The Supplemental Buildings Agreement became effective on January 1, 2003 and will expire at the same time as the Buildings Leasing Contract. The terms and conditions of the Buildings Leasing Contract will, to the extent not contradictory to the Supplemental Buildings Agreement, continue to apply.

5. INTELLECTUAL PROPERTY LICENSING CONTRACTS

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The Company and CNPC continue to implement the three intellectual property licensing contracts entered into on March 10, 2000, being the Trademark Licensing Contract, the Patent and Know-how Licensing Contract and the Computer Software Licensing Contract. Pursuant to these licensing contracts, CNPC has granted the Company the exclusive right to use certain trademarks, patents, know-how and computer software of CNPC at no cost. These intellectual property rights relate to the assets and businesses of CNPC which were transferred to the Company pursuant to the restructuring.

6. CONTRACT FOR THE TRANSFER OF RIGHTS UNDER PRODUCTION SHARING CONTRACTS

The Company and CNPC continue to implement the Contract for the Transfer of Rights under Production Sharing Contracts dated December 23, 1999. As part of the restructuring, CNPC transferred to the Company relevant rights and obligations under 23 production sharing contracts entered into with a number of international oil and natural gas companies, except for the rights and obligations relating to CNPC's supervisory functions.

During the period between the establishment the Company and December 31, 2007, CNPC further entered into ten additional production sharing contracts which are currently effective. All the rights and obligations under these production sharing contracts have been assigned to the Company, which have also been approved by the Ministry of Commerce of the PRC. According to the Contract for the Transfer of Rights for the Exploration and Oil Production in the Daqing Zhaozhou Oilfield Blocks 13 (3-6) and the Contract for the Transfer of Rights under Production Sharing Contracts entered into in May 2002 and April 2007, respectively, between the Company and CNPC, CNPC has agreed to assign to the Company all of its rights and obligations under seven out of these ten additional production sharing contracts executed on or prior to June 30, 2007 at nil consideration and subject to applicable PRC laws and regulations, except for the rights and obligations relating to CNPC's supervisory functions.

7. GUARANTEE OF DEBTS CONTRACT

The Company and CNPC continue to implement the Guarantee of Debts Contract entered into on March 10, 2000, pursuant to which all of the debts of CNPC relating to the assets transferred to the Company in the restructuring were also transferred to, and assumed by, the Company.

In the Guarantee of Debts Contract, CNPC has agreed to guarantee certain of the debts of the Company at no cost. As at December 31, 2007, the total amount guaranteed was RMB498 million.

As each of the applicable percentage ratio(s) (other than the profits ratio) in respect of the Trademark Licensing Contract, the Patent and Know-how Licensing Contract, the Computer Software Licensing Contract, the Contract for the Transfer of Rights under Production Sharing Contracts and the Guarantee of

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Debts Contract is less than 0.1%, these transactions are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Directors believe that these

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transactions had been entered into in the normal and ordinary course of business for the benefits of the Company, and are in the interests of the shareholders as a whole.

(II) CONTINUING CONNECTED TRANSACTIONS WITH CNPC E&D

The following continuing connected transactions arose as a result of the completion of the acquisition of the 67% equity interest in PKZ, which was announced by the Company on August 23, 2006, on December 28, 2006:

- the provision of production services by CNPC to the Group;
- the provision of construction and technical services by CNPC to the Group;
- the provision of material supply services by CNPC to the Group.

Upon completion of the acquisition of the 67% equity interest in PKZ, 2006, PKZ became a subsidiary (as defined under the Listing Rules) of CNPC E&D. As CNPC is the controlling shareholder of the Company and as each of CNPC and the Company is interested in 50% interest in CNPC E&D respectively, therefore, CNPC and CNPC E&D are connected persons of the Company under the Listing Rules. The caps for these continuing connected transactions have already been included in that for continuing connected transactions between the Group and CNPC.

(III) CONTINUING CONNECTED TRANSACTIONS WITH CNPC (HK)

As part of the restructuring of CNPC and in preparation for the listing of the Company on HKSE, and as disclosed in the Company's prospectus dated March 27, 2000, CNPC and the Company entered into the Contract for the Transfer of Rights under Production Sharing Contracts whereby the relevant rights and obligations (other than the supervisory functions related to CNPC's role as representative of the PRC government) of CNPC under certain contracts, including the Blocks 9-1 to 9-5 of the Xinjiang Karamay Oilfield Petroleum Contract dated July 1, 1996, entered into between CNPC and Hafnium Limited ("Xinjiang Contract") and the Leng Jiapu Area Petroleum Contract dated December 30, 1997, entered into between CNPC and Beckbury International Limited ("Liaohé Contract"), were novated to the Company.

CNPC (HK) is a company listed on the HKSE and a 51.89% owned subsidiary of CNPC. Upon the effective novation by CNPC to the Company of the above interest in the PRC Oil Production Sharing Contracts (the Xinjiang Contract and the Liaohé Contract), certain transactions pursuant to the PRC Oil Production Sharing Contracts constitute continuing connected transactions between the Company and CNPC (HK) pursuant to the Listing Rules and the SSE Listing Rules.

Summary of the major terms and conditions of these continuing connected transactions under the Xinjiang Contract and the Liaohé Contract are as follows:

(1) Production and development cost sharing between the Company and CNPC (HK): The Company and CNPC (HK) shall share the development costs as well as the oil and natural gas produced from blocks 9-1 to 9-5 of the Karamay Oilfield, as to 46% by the Company and

54% by CNPC (HK), and from the Leng Jiapu Block of Liaohe Oilfield ("Leng Jiapu Oilfield"), as to 30% by the Company and 70% by CNPC (HK).

(2) Provision of assistance by the Company to CNPC (HK): The Company shall provide assistance to CNPC (HK), including: (i) leasing warehouses, terminal facilities, barges, pipeline and land, etc.; (ii) obtaining approvals necessary for the conduct of the petroleum operations; and (iii) obtaining office space, office supplies, transportation and communication facilities. For such assistance, CNPC (HK) will pay an annual assistance fee of US\$50,000 for each of blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield. The amount of such fee was determined after negotiations, and has taken into account the actual circumstances and conditions, including the scope of the projects and the level of demand for such assistance. This fee shall be accounted for as operating costs and shared by the Company and CNPC (HK) in accordance with the procedures described in the Xinjiang Contract and the Liaohe Contract.

(3) Payment of training fees: In the course of development and operations of each oilfield, CNPC (HK) shall pay the Company an amount of US\$50,000 annually for the training of personnel carried out by the Company for each of blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield. The amount of such fee was determined after negotiations, and has taken into account the actual circumstances and conditions, including the scope of the projects and the level of demand for training.

(4) Sale of crude oil by CNPC (HK) to the Company: CNPC (HK) has the right to deliver its share of oil production from each of blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield to a destination of its choice, except for destinations which infringe on the political interests of the PRC. However, given the transportation costs and the prevailing oil prices, the only likely purchaser of the oil production attributable to CNPC (HK) from each of blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield is CNPC or its affiliates, including the Company, which will accept delivery of oil produced in blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield at the market price. Since the signing of the PRC Oil Production Sharing Contracts, CNPC (HK) has sold all of its share of the oil production to CNPC or its affiliates, including the Company. As far as the Board of Directors is aware, CNPC (HK) intends to continue with this arrangement. There is no contractual obligation upon the Company to purchase oil produced from blocks 9-1 to 9-5 of the Karamay Oilfield and the Leng Jiapu Oilfield, although, from a commercial perspective, the Company intends to continue to accept part of the deliveries. The price of various grades of crude oil sold shall be set either with reference to the price approved by the relevant PRC authorities, or as determined with reference to the prevailing fair market price for transactions of crude oil of a similar quality in the major oil markets. This will be adjusted to take into account the terms of transportation, payment and other terms.

The waiver in respect of the above continuing connected transactions between the Company and CNPC (HK) granted by the HKSE expired on December 31, 2006. As each of the applicable percentage ratio(s) (other than the profits ratio) in respect of the above continuing connected transactions between the Company and CNPC (HK) is more than 0.1% but less than 2.5%, these transactions are exempted from the independent shareholders'

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approval requirements and are only subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules. An announcement was made by the Company on August 23, 2006 in respect of the reporting and announcement obligations for these continuing connected transaction for the period from January 1, 2007 to December 31, 2008.

(IV) CONTINUING CONNECTED TRANSACTIONS WITH CRMSC AND BEIJING GAS

The Group has entered into continuing connected transactions with Beijing Gas and CRMSC pursuant to the following agreements. For the transactions with Beijing Gas, the Group has complied with the procedures for reporting and announcements obligations to the HKSE. The transactions with CRMSC and the caps for these transactions have been approved by HKSE and the same were first approved by shareholders at the extraordinary general meeting held on November 8, 2005 and subsequently approved by shareholders at the extraordinary general meeting held on November 1, 2006 with the revised caps.

(a) Beijing Gas Products and Services Agreement

The Company entered into a Products and Services Agreement with Beijing Gas on September 1, 2005. Pursuant to the agreement, the Group shall continuously provide products and services to Beijing Gas, including the provision of natural gas and natural gas related transmission services. The agreement was effective from January 1, 2006 with a term of 3 years.

(b) CRMSC Products and Services Agreement

On September 1, 2005, the Company entered into the CRMSC Products and Services Agreement with CRMSC. Under the CRMSC Products and Services Agreement, products and services to be continuously provided by the Company to CRMSC include, among other things, refined products (such as gasoline, diesel and other petroleum products). The term of the CRMSC Products and Services Agreement is 3 years commencing from January 1, 2006.

During the term of the CRMSC Products and Services Agreement, the product and service implementation agreements may be terminated from time to time by the contracting parties providing at least 6 months' written notice of termination in relation to any one or more categories of products or services. Further, in respect of any products or services already contracted to be provided, termination may not take place until after such products and services have been provided.

- CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS

The following caps in respect of the continuing connected transactions are set based on the annual volumes of the relevant transactions for the period from January 1, 2006 to December 31, 2008:

(A) In relation to the products and services contemplated under (a) the Comprehensive Agreement as amended by the First Supplemental Comprehensive Agreement and the Second Supplemental Comprehensive Agreement and also include the new continuing connected transactions arising as a result of the acquisition of interest in PKZ, (b) Buildings Leasing

Contract and Supplemental Buildings Agreement, and (c) the CRMSC Products and

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Services Agreement, the total annual revenue or expenditure in respect of each category of products and services will not exceed the proposed maximum annual aggregate values set out in the following table:

| CATEGORY OF PRODUCTS AND SERVICES | PROPOSED | |
|---|-------------|---------|
| | 2006 | 2007 |
| | RMB MILLION | |
| (i) Products and services to be provided by the Group to the CNPC Group (Note 1) | 36,670 | 44,000 |
| (ii) Products and services to be provided by CNPC to the Group | | |
| (a) Construction and technical services (Note 1) | 114,681 | 115,000 |
| (b) Production services (Note 1) | 63,983 | 96,000 |
| (c) Supply of materials services (Note 1) | 5,356 | 5,000 |
| (d) Social and ancillary services (Note 3) | 5,000 | 5,000 |
| (e) Financial Services | | |
| - Aggregate of the average daily outstanding principal of loans; the total amount of interest paid in respect of these loans; and other relevant charges (Note 3) | 43,312 | 50,000 |
| - Aggregate of the average daily amount of deposits; and the total amount of interest received in respect of these deposits (Note 3) | 9,081 | 9,000 |
| (iii) Financial services to be provided by the Group to the Jointly-owned Companies (Note 3) | 21,235 | 32,000 |
| (iv) Fee for land leases paid by the Group to CNPC (Note 3) | 2,260 | 2,000 |
| (v) Rental for buildings paid by the Group to CNPC (Note 3) | 140 | 1,000 |
| (vi) Provision of services by the Group to CNPC (HK) (Note 4) | 1.6 | 1,000 |
| (vii) Provision of products by CNPC (HK) to the Group (Note 4) | 23,192 | 4,000 |
| (viii) Products and services provided by the Group to CRMSC (Note 2) | 11,048 | 12,000 |
| (ix) Products and services provided by the Group to Beijing Gas (Note 5) | 4,939 | 5,000 |

Notes:

1. The Company obtained independent shareholders' approval at the general meeting held on November 8, 2005. The Company further obtained independent shareholders' approval at the general meeting held on November 1, 2006 for a revision of these annual caps which were previously approved by shareholders at the general meeting held on November 8, 2005.
2. The Company obtained shareholders' approval at the general meeting held on November 8, 2005. The Company further obtained shareholders' approval at the general meeting held on November 1, 2006 for a revision of these annual caps which were previously approved by shareholders at the general meeting held on November 8, 2005.
3. The Company obtained shareholders' approval at the general meeting held on November 8, 2005.
4. The Board of Directors approved the annual caps for these continuing connected transactions from January 1, 2007 to December 31, 2008 at the board meeting held on August 23, 2006. Details of such transactions were announced on the same day.
5. The annual caps of this continuing connected transaction are only subject to announcement requirement. Details of such transaction were announced on September 1, 2005.

(B) In relation to the Trademark Licensing Contract, the Patent and Know-how Licensing Contract and the Computer Software Licensing Contract, CNPC has granted the Company the right to use certain trademarks, patents, know-how and computer software of CNPC at no cost.

INDEPENDENT NON-EXECUTIVE DIRECTORS CONFIRMATION

In relation to the connected transactions undertaken by the Group in 2007, the independent non-executive Directors of the Company confirm that:

- (i) the connected transactions mentioned above have been entered into in the ordinary and usual course of business of the Company;
- (ii) the connected transactions mentioned above have been entered into on terms that are fair and reasonable to the shareholders of the Company;
- (iii) the connected transactions mentioned above have been entered into on normal commercial terms either (1) in accordance with the terms of the agreements governing such transactions, or (2) (where there is no such agreement) on terms no less favourable than terms available to independent third parties; and
- (iv) where applicable, the connected transactions have been entered into within the annual caps for the years mentioned above.

AUDITOR'S CONFIRMATION

The auditors of the Company have reviewed the connected transactions mentioned above and have provided the Board of Directors with a letter stating that:

- (i) all the connected transactions have received the approval of the Board of Directors;
- (ii) all the connected transactions have been conducted in accordance with the terms of the agreements governing such transactions; and
- (iii) where applicable, the connected transactions have been entered into within the annual caps for the years mentioned above.

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

CONNECTED SALES AND PURCHASES

| 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 |

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| | | | | |
|-------|--------|------|---------|-------|
| Total | 53,080 | 6.36 | 175,756 | 24.33 |
|-------|--------|------|---------|-------|

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CONNECTED OBLIGATORY RIGHTS AND DEBTS

| 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 |

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CORPORATE GOVERNANCE

1. IMPROVEMENT OF CORPORATE GOVERNANCE

The Company has always duly complied with the regulatory provisions of the domestic and overseas jurisdiction in which its shares are listed, standardized its operations and promoted the continuous improvement of the level of corporate governance. The A shares of the Company were listed on November 5, 2007. As a listed company in Hong Kong, New York and the PRC, the Company has been able to comply with the legal, regulatory and procedural requirements as required by the respective jurisdictions of listing. The Company has further improved the work systems and processes laid down by the directions under the Articles of Association of the Company. Checks and balances were achieved through the coordination among the shareholders at the shareholder's meeting, the Board of Directors and its related special Board committees, the Supervisory Committee and the management headed by the President. Together with the effective internal control and management systems, the Company's internal management and operations was further standardized and the corporate governance of the Company is further enhanced.

2. IMPROVEMENT OF INTERNAL CONTROL SYSTEM

The Company places great emphasis on internal control and risk management. The Company's management is mainly responsible for the design, implementation and improvement of the internal control system, including financial reporting, operations and compliance and risk management control functions. The Board of Directors and the Audit Committee are responsible for supervising the activities of the management and monitoring the effectiveness of the existing internal control system.

Since 2003, the Company has commenced the establishment of an internal

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control system. In 2005, pursuant to the relevant requirements of laws and regulations, the Company focused on the processes and key controls related to the preparation of financial statements and disclosure of financial information based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and compiled an "Internal Control Management Handbook" which has been enhanced every year. In 2007, work on the internal controls has been focused on ensuring continuous and effective operation of the internal control system and which has facilitated the further enhancement of the internal control system and its effectiveness and the level of supervision. As such, improvement on the internal control system was strengthened and effective implementation was facilitated.

The Company has established a decision making body in charge of internal control and risk management - Internal Control System Establishment Committee, which is headed by the President and the Chief Financial Officer. The Internal Control System Establishment Committee established an internal control department at the headquarters of the Company and serves as an operation organ for the daily management department and committees in charge

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of the internal control of the Company to organise and coordinate the practice in relation to the implementation and improvement of the internal control system. The internal control department and the audit department shall exercise supervision functions to assess and monitor the operations of the systems. All subsidiaries and branch companies have established relevant departments to manage their own internal control on a day-to-day basis.

The Board of Directors is satisfied with the effectiveness of the internal control system of the Company and expects the Company to continue the strengthening of the implementation of internal control management and continues to emphasise risk management control, establish and improve a comprehensive risk management system which is "simple, easy and efficient" so as to ensure that the internal control is practical and efficient and management efficacy could be enhanced. The Company's internal control systems includes financial, operations and compliance and risk management controls. The Company has formulated a series of management procedures for various production, operation and management activities, including but not limited to procedures and systems which the management considers reasonable to ensure the reliability of the financial reports and preparation of financial statements. The Company has also formulated improved systems for information disclosure and the collection, consolidation and procedures for disclosure.

In 2007, with the implementation of the single-tier accounting system, the Company completed the design of key controls for business processes and improved the structure of internal controls.

The management of the Company has assessed the control environment of the Company at the Company level and at the process/transaction level and performed risk assessment of the businesses and processes. The Company has designed and adopted key controls against identified significant risks with a view to minimizing such risks.

In 2007, the management of the Company assessed the design and effectiveness of the implementation of internal control in connection with financial statement preparation and financial reporting of the Company and its subsidiaries and branch companies and considered that the internal control of the Company was effective as at December 31, 2007.

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The Audit Committee is responsible for assessing the findings and opinions of the management of the Company on the effectiveness of the internal control of the Company and presents its assessment to the Board of Directors each year. The Audit Committee considers that the Company has effectively implemented an effective internal control system which has enhanced the governance of the Company. As at December 31, 2007, the Board of Directors considered that the internal control system of the Company in respect of the preparation of financial statements and compliance with the relevant regulatory requirements on internal control as required in Hong Kong and Shanghai were effective and adequate.

Looking ahead 2008, the Company shall focus on the effectiveness of the structure of the internal control system and strengthening the control and monitoring measures in all respects and further enhancement of the internal control system in accordance with actual circumstances and regulatory requirements.

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3. PERFORMANCE OF INDEPENDENT DIRECTORS' DUTIES

In 2007, the independent Directors of the Company were committed to implementing the system of independent directors and earnestly and diligently performing their duties and fiduciary duties in accordance with the relevant laws and regulations and the Articles of Association of the Company. They reviewed the documents presented by the Company and actively participated in the meetings of the Board of Directors and special committees of the Board (please refer to the section on "Directors' Report" in this annual report for detailed information on the attendance of the meetings). They discharged their duties objectively and independently protecting the interests of the minority shareholders and played a part in the checks and balances of the decision making process of the Board of Directors.

During the reporting period, the independent Directors of the Company did not object to the motions, resolutions and other matters discussed at the meetings of the Board of Directors.

4. INDEPENDENCE OF THE COMPANY FROM THE CONTROLLING SHAREHOLDER

The Company is independent from its controlling shareholder, CNPC, in respect of business, personnel, asset, organizational structure and finance. The Company has independent and comprehensive business operations and management capabilities.

5. SENIOR MANAGEMENT EVALUATION AND INCENTIVE SCHEME

In accordance with the "Measures of Evaluation of Annual Performance of the President's Team", the Company evaluated the completion of the performance targets of 2006 by the President's Team with reference to the achievement of the performance targets in 2006 and the business development plan of 2007, formulated the "2007 Performance Contracts of President's Team" and prepared a "Report on the Examination of the Completion of Performance Targets by the President's Team in 2006 and the Formulation of Performance Contracts in 2007", which were reviewed and approved at the sixth meeting of the Third Session of the Board of Directors.

In accordance with the "Measures of Evaluation of Performance of the Senior Management" and the relevant provisions and performance targets of the year, the Company conducted appraisal on 561 members of the senior management from the

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specialized companies, local companies and the science and research planning departments on their achievement of the performance targets in 2006, and formulated the performance contracts 2007. The Company organized a signing ceremony of the performance contracts for 2007 for specialized companies and local companies attended by key political and party personnel. The Company conducted quarterly review on the completion of performance targets, drafted and presented seven performance reports on major performance targets to the President's office and others. The Company completed evaluation of the performance targets of the year in all aspects.

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6. CORPORATE GOVERNANCE REPORT

(1) Compliance with Code on Corporate Governance Practices

The Company is dedicated to enhancing the level of its corporate governance. During the year, the Company has been in strict compliance with the code provisions set out in the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") in Appendix 14 of the Listing Rules. However, since May 20, 2007, the roles of Chairman and President have been performed by the same person. Following the retirement of Mr Chen Geng, 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 of Directors 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 of Directors 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 of Directors 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 of Directors will consider appointing a new president to comply with the relevant requirement under the Code on Corporate Governance Practices.

(2) Securities Transactions by Directors and Supervisors

The Company has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules in respect of the dealing of the Company's shares by its Directors. Upon making special enquiries to all the Directors and the Supervisors of the Company, they have confirmed that, during the reporting period, they have complied with the standards as required under the Model Code.

(3) Board of Directors

Pursuant to the "Work Manual of the Board of Directors", the Board of Directors convened 4 regular meetings and 3 extraordinary meetings of Board of Directors and 9 meetings of special Board Committees and passed 24 resolutions of the Board of Directors and 11 opinions of Board Committees during the reporting period.

For details of the composition of the Board of Directors and attendance rate of Directors at regular Board meetings during the year, please refer to the section "Members of the Board of Directors and the attendance rate of Directors" in the "Directors' Report" of this annual report.

There is no relationship (including financial, business, family or other

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material/relevant relationship(s)) among members of the Board of Directors and between the Chairman and the President of the Company.

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(4) Operations of the Board of Directors

The Company's Board of Directors is elected by the shareholders' general meeting of the Company through voting and is held accountable to the shareholders' general meeting. The Board of Directors is the highest decision-making authority during the adjournment of the shareholders' general meeting. The primary responsibilities of the Board of Directors are to provide strategic guidance to the Company, exercise effective supervision over the management, ensure that the Company's interests are protected and are accountable to the shareholders. The Board of Directors makes decisions on certain important matters, including strategic proposals and long and medium-term planning; annual business plans and investment plans; annual financial budgets; annual criteria for assessment of the performance of members of working units of the Company and annual remuneration plans; interim and annual financial reports; preliminary distribution plans in respect of interim profit and full year profit; and material issues involving development, acquisition or corporate reorganisation of the Company. The Directors and the Board of Directors carry out corporate governance duties in respect of the Company in a serious and responsible manner. The Directors are elected following the procedures for election and appointment of Directors provided for in the Articles of Association of the Company. The Directors attend Board meetings in a serious and responsible manner, perform their duties as Directors earnestly and diligently, make important decisions concerning the Company, appoint, dismiss and supervise the members of the operation units of the Company, communicate with shareholders, and thereby strengthen the function of the Board of Directors.

The Company has established a system of independent directors. There are three independent non-executive Directors in the Board of Directors, in compliance with the minimum number of independent non-executive Directors required under the Listing Rules. The Company has received a confirmation of independence from each of the three independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company considers that the three independent non-executive Directors are completely independent of the Company, its major shareholders and its affiliates and comply fully with the requirements concerning independent non-executive Directors under the Listing Rules. Mr Liu Hongru, an independent non-executive Director, has appropriate accounting and financial experience as required under Rule 3.10 of the Listing Rules. Please see the section headed the Brief Biography of the Directors under the Directors' Report for biographical details of Mr Liu Hongru. The three independent non-executive Directors do not hold other positions in the Company. They perform their duties seriously according to the Articles of Association of the Company and the relevant requirements under the applicable laws and regulations.

The Board of Directors has established the Audit Committee, the Investment and Development Committee, the Examination and Remuneration Committee and the Health, Safety and Environmental Protection Committee. The main responsibility of these committees is to provide support to the Board of Directors in decision-making. The Directors participating in these special board committees focus on particular issues according to their areas of expertise and make recommendations for the improvement of the corporate governance level of the Company.

(5) The Chairman and President

Mr Jiang Jiemin is the Chairman of the Board of Directors and President of the Company. Pursuant to the Articles of Association of the Company, the primary duties and responsibilities of the Chairman are chairing the shareholders' general meetings and convening and holding meetings of the Board of Directors, inspecting the implementation of Board resolutions, signing share certificates issued by the Company, and other duties and power authorised under the Articles of Association and by the Board of Directors. The key duties and responsibilities of the President are taking care of production, operation and management matters, organising the implementation of Board resolutions, organising the implementation of annual business plans and investment plans of the Company, formulating plans for the establishment of internal management institutions of the Company, devising the basic management system of the Company, formulating specific rules and regulations of the Company, advising the Board of Directors to appoint or dismiss Senior Vice Presidents, Vice Presidents, the Chief Financial Officer and other senior management personnel, appointing or dismissing management staff other than those that should be appointed or dismissed by the Board of Directors, and performing other duties and power authorised by the Articles of Association of the Company and the Board of Directors.

(6) Term of Office of Directors

Pursuant to the Company's Articles of Association, the Directors (including non-executive Directors) shall be elected at the shareholders' general meeting and serve a term of three years. Upon the expiry of their term of office, the Directors may be re-elected for another term.

(7) Remuneration of Directors

The Examination and Remuneration Committee of the Company comprises three Directors, including two independent non-executive Directors with Mr Liu Hongru as chief committee member and Mr Chee-Chen Tung as member, and a non-executive Director, Mr Zheng Hu. This is in compliance with the provisions of the Code of Corporate Governance Practices. Since the listing of the Company in 2000, there have been three changes to the composition of the Examination and Remuneration Committee. The Work Manual of the Board of Directors specifies the duties and responsibilities and work system of the Examination and Remuneration Committee. The terms of reference of the Examination and Remuneration Committee are included in the Work Manual of the Board of Directors and set out in the Company's website (www.petrochina.com.cn).

The main duties and responsibilities of the Examination and Remuneration Committee are organising appraisal of the President and submitting a report therefor to the Board of Directors, supervising the appraisals of Senior Vice Presidents, Vice Presidents, the Chief Financial Officer and other senior officers under the leadership of the President, reviewing the incentive scheme, remuneration system and stock option plan of the Company, monitor and assess the effectiveness of their implementation, and put forward opinions on reform and improvement in relation thereto.

The Examination and Remuneration Committee held one meeting in the

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reporting period which was the sixth meeting of the Third Session of the Board of Directors.

A summary of the work of the Examination and Remuneration Committee of the Company in 2007 is as follows:

The meeting of the Examination and Remuneration Committee held at the sixth meeting of the Third Session of the Board of Directors reviewed the "Report on the Examination of the Completion of Performance Targets by the President's Team in 2006 and the Formulation of Performance Contracts in 2007".

(8) Nomination of Directors

Pursuant to the Company's Articles of Association, election and replacement of Directors shall be proposed to the shareholders' general meeting for approval. Shareholders whose shareholding represents 5% or more of the voting shares of the Company are entitled to make such proposal and request the Board of Directors to authorise the Chairman to consolidate a list of the director candidates nominated by the shareholders who are entitled to make a proposal. As authorised by the Board of Directors, the Chairman shall consolidate a list of the director candidates and order the Secretariat of the Board of Directors together with the relevant departments to prepare the relevant procedural documents, including but not limited to invitations to serve as Director, confirmation letters, resume of candidates and letters of resignations. The Secretariat of the Board of Directors is responsible for requesting the Chairman and/or the shareholders entitled to make a proposal to issue invitations to serve as Director to the candidates for directorship. The candidates for directorship will sign the confirmation letters. At the same time, resigning Directors are required to sign resignation letters. Pursuant to the Company's Articles of Association, the Company is required to give notice of the shareholders' meeting to shareholders in writing 45 days in advance and send a circular to shareholders. Pursuant to Rule 13.51(2) of the Listing Rules, the list, resume and emoluments of the candidates for directorship must be set out in the circular to shareholders to facilitate voting by shareholders. The new Directors must be approved by more than half of the total voting shares held by the shareholders or the independent shareholders present in person or by proxy in the shareholders' general meeting.

As at the end of the reporting period, the Company has not established a nomination committee.

(9) Audit Committee

The Audit Committee of the Company comprises one non-executive Director and three independent non-executive Directors. Under the Organisational and Work Rules of the Audit Committee, the chairman of the Committee must be an independent non-executive Director and all resolutions of the Committee must be approved by the independent non-executive Directors.

The responsibilities of the Audit Committee of the Company are set out in the Company's website (www.petrochina.com.cn). The major responsibilities of the Audit Committee of the Company are supervising the completeness and the process of the financial reporting of the

Company to ensure true, fair and transparent disclosure of financial information; evaluating the effectiveness of the internal control and risk management framework; inspecting and monitoring the internal audit functions;

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reviewing and monitoring the appointment and work of external auditors, including the conduct of annual reviews on the performance of external auditors, and, in conjunction with the Supervisory Committee, submitting proposals for the appointment, renewal of appointment and dismissal of external auditors and the fees for audit services to the shareholders' general meeting; receiving, keeping and dealing with complaints regarding accounting, internal control or audit matters that the Company is aware of; receiving and dealing with employees' complaints or anonymous reports regarding accounting or audit matters and ensuring the confidentiality of such complaints or reports; and performing other responsibilities as may be required under relevant laws, regulations and the listing rules of the stock exchanges where the shares of the Company is listed (as amended from time to time).

During the reporting period, the Audit Committee held five regular meetings. One of the meetings of the Audit Committee was held by way of written resolution.

The opinions of the Audit Committee will be presented to the Board of Directors and acted upon (where appropriate). The members of the Audit Committee and their attendance rate at meetings are as follows:

| POSITION | NAME | ATTENDANCE RATE (%) |
|----------|----------------|---------------------|
| Chairman | Franco Bernabe | 100 |
| Member | Chee-Chen Tung | 75 |
| Member | Liu Hongru | 100 |
| Member | Gong Huazhang | 75 |

The followings are the work reports prepared by the Audit Committee in respect of the performance of its responsibilities relating to the interim and annual results and the review of the internal control system and the performance of the other responsibilities set out in the Code on Corporate Governance Practices during the reporting period:

- the Audit Opinion of the Audit Committee of the Board of Directors on the Financial Report for 2006;
- the Audit Opinion of the Audit Committee of the Board of Directors on the draft Profit Distribution Plan for 2006;
- the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Report for 2007 and Other Matters;
- the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Profit Distribution Plan for 2007; and
- the Audit Opinion of the Audit Committee of the Board of Directors on the Internal Control Work Report and other Reports of the Company.

(10) Shareholders and Shareholders' General Meetings

For details of shareholders and shareholder's general meetings, please refer to the section entitled "Shareholders' Meetings" in this annual report.

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(11) Supervisors and the Supervisory Committee

The Supervisory Committee of the Company is accountable to the shareholders' general meeting. Its members comprise a supervisor elected by the employees' representatives and two independent non-executive Supervisors. The Supervisors have discharged their duties conscientiously in accordance with the provisions of the Company's Articles of Association, attended all Board meetings and persistently reported their work to the shareholders' general meeting, and submitted the Supervisory Committee Report and related resolutions. In line with the spirit of accountability to all shareholders, the Supervisory Committee monitored the financial affairs of the Company and the performance of duties and responsibilities by the Directors, managers and other senior management personnel of the Company to ensure that they have performed their duties in compliance with applicable laws and regulations. The Supervisory Committee has participated actively in major matters of the Company including production, operation and investment projects and made constructive recommendations.

(12) Directors' Responsibility In Preparing Financial Statements

The Directors are charged with the responsibility to audit the financial statements in each financial year with supports from the accounting departments, and to ensure that the relevant accounting practices and policies are observed and IFRS and CAS are complied with in the compilation of such financial statements in order to report the financial position of the Company in a factual and unbiased manner.

(13) Going Concern

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

(14) Others

Information on corporate governance, mechanisms for assessment of performance and performance incentives and restrictions of the Company, information disclosure and transparency, the relationship between CNPC and the Company, performance of duty by independent non-executive Directors, professional and ethical code for senior management personnel, code of conduct for staff and workers, and significant differences on corporate governance structure pursuant to the requirements under section 303A.11 of the New York Stock Exchange Listed Company Manual can be found on the Company's website (www.petrochina.com.cn). You may access such information by following these steps:

1. From our main web page, click "Investor Relations";
2. Next, click "Corporate Governance Structure";
3. Finally, click on the information you are looking for.

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SHAREHOLDERS' MEETINGS

To ensure that all shareholders of the Company enjoy equal rights and exercise their rights effectively, the Company convenes the shareholders'

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general meeting every year pursuant to its Articles of Association.

1. ANNUAL GENERAL MEETING

The annual general meeting for 2006 was held on May 16, 2007 at Crowne Plaza Park View Wuzhou Beijing Hotel. Twelve ordinary resolutions and one special resolution granting the general mandate of the Board of Directors to issue the Company's shares and apply for the listing of such shares were passed and approved at the meeting.

Pursuant to the relevant provisions of the Listing Rules, CNPC, as the controlling shareholder and therefore a connected person of the Company, abstained from voting on the 13th resolution proposed at the annual general meeting involving the connected transaction between the Company and CNPC. Such resolution was passed by more than half of the voting rights represented by the independent shareholders present at the meeting in person or by proxy. The independent non-executive Directors of the Company have conducted annual review on these connected transactions to ensure sufficient disclosures have been made in respect of the details, approval procedures and performance of the connected transactions. For details of the connected transactions, please refer to section on headed Connected Transactions in this annual report.

Details of the resolutions passed at the general meeting have been set out in the announcement published in the "Hong Kong Economic Times" and "South China Morning Post" on May 16, 2007.

2. EXTRAORDINARY GENERAL MEETING

An extraordinary general meeting for 2007 was held on August 10, 2007 at the Oriental Bay International Hotel, Beijing. A special resolution in respect of the issue and listing of A shares of the Company was passed and approved at such meeting.

Details of the resolution passed at the extraordinary general meeting have been set out in the announcement published on the website of the HKSE on August 10, 2007.

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DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present its directors' report for perusal.

1. REVIEW OF RESULTS OF OPERATIONS AND THE BUSINESS PROSPECT OF THE COMPANY DURING THE REPORTING PERIOD

Please refer to the sections headed "Business Operating Review", "Management's Discussion and Analysis of Financial Position and Results of Operations" and "Chairman's Report" in this annual report.

2. 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

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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

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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 is implementing 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 affecting 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

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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, exploitation, 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

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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.

3. CONTINGENT LIABILITIES

(1) Bank and other guarantees

Please refer to the paragraph headed "Material Contracts and the performance thereof" under the section headed "Significant Events" in this annual report for details.

(2) Environmental liabilities

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

(3) Legal contingencies

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

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position of the Group.

(4) Leasing of roads, land and buildings

According to the Restructuring Agreement entered into between the Company and CNPC on March 10, 2000, CNPC has undertaken as follows:

- CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;
- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

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As at December 31, 2007, CNPC had obtained formal land use right certificates in relation to 27,554 out of the above-mentioned 28,649 parcels of land and some building ownership certificates for the above-mentioned buildings, but has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively owned land. The management of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. In the opinion of the management of the Company, the outcome of the above events will not have material adverse effect on the operating results or the financial position of the Group.

(5) Group insurance

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

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4. USE OF PROCEEDS FROM FUND RAISING

Unit: RMB million

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| | | | |
|--------------------------|---|---|---|
| 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 following five projects in RMB37,770 million, RMB13,943 million was used as additional working capital 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 | P |
|---|-----------------------------|---------------------|-------------------|---------------------|-----------------------------------|-------------|
| Project to increase the crude oil production capacity of Changqing Oilfield | No | 6,840 | 2,718 | Yes | Internal rate of return above 12% | To co up co |
| Project to increase the crude oil production capacity of Daqing Oilfield | No | 5,930 | 1,772 | Yes | Internal rate of return above 12% | To co up co |
| Project to increase the crude oil production capacity of Jidong Oilfield | No | 1,500 | 495 | Yes | Internal rate of return above 12% | To co up co |
| 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 co up co |
| Daqing Petrochemical 1.2 million tons/year ethylene redevelopment and expansion project | No | 6,000 | 91 | Yes | Internal rate of return above 12% | To co up co |
| Total | | 37,770 | 13,943 | | -- | -- |
| Projects not progressing as planned and not achieving estimated return | | | | -- | | |
| Projects modified and | | | | | | |

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modification
procedures

--

Application and
status of unused
proceeds

The unutilised portion of the net proceeds of RMB37,770 million from the
has been deposited into the designated bank accounts maintained by the Co

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PROJECTS NOT FUNDED BY PROCEEDS FROM FUND RAISING

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 | -- | |

5. OPERATIONS OF THE BOARD OF DIRECTORS

(1) The convening of Board meetings and the issues resolved

During the reporting period, the Board of Directors convened 4 regular Board meetings, 3 extraordinary Board meetings and passed 24 resolutions.

a. On March 18, 2007, the Company held the sixth meeting of the third term of its Board of Directors, during which 12 resolutions were passed as follows:

- The resolution on the Company's Financial Statements for year 2006 (including the announcement of the annual results for the

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year ended December 31, 2006)

- The resolution on the Company's draft profit distribution plan for 2006
- The resolution on the Company's 2006 annual report and 2006 social responsibility report
- The resolution on the Company's 2006 President Work Report
- The resolution on the assessment of the completion of performance targets by the President's Work Team for 2006 and the formulation of performance contract for 2007
- The resolution on the proposal to request the Company's general meeting to authorize the Board of Directors to determine the distribution of the Company's interim profits for 2007
- The resolution on the proposal to request the Company's general meeting to authorize the Board of Directors to arrange for the issue of new shares by the Company and for their listing

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- The resolution on the formation of a special committee of the Board of Directors regarding the application for issue of new shares by the Company and their listing and the authorization of such committee to deal with related matters
- The resolution on the disposal of equity interest in China National United Oil Corporation
- The resolution on the formation of an independent committee of the Board of Directors and the appointment of an independent financial advisers regarding the equity interest transfer of China National United Oil Corporation
- The resolution on the authorization of short-term investment quota for 2007
- The resolution on convening of the Annual General Meeting for 2006

b. On June 19, 2007, the Company held the seventh meeting of the third term of its Board of Directors, during which 3 resolutions were passed as follows:

- The resolution on the appointment of Vice President, Chief Financial Officer and Chief Engineer as recommended by the President
- The resolution on the public offering of shares domestically
- The resolution on convening of Extraordinary General Meeting for 2007

c. On August 22, 2007, the Company held the eighth meeting of the third term of its Board of Directors, during which 3 resolutions were passed as follows:

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- The resolution on the interim financial statement of 2007 (including the announcement of the interim results for six months ended June 30, 2007)
- The resolution on the Company's interim profit distribution plan for 2007
- The resolution on the acquisition of the assets engaged in risk management service assets of Xinjiang Petroleum Administration Bureau and the Command Department of Tuha Petroleum Exploration and Exploitation

d. On November 20, 2007, the Company held the ninth meeting of the third term of its Board of Directors, during which 3 resolutions were passed as follows:

- The resolution on the Company's budget for 2008
- The resolution on the Company's investment plan for 2008
- The resolution on the appointment of Vice President recommended by the President

Reference can be made to the announcement regarding the resolution on the appointment of Vice President recommended by the President published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on November 23, 2007.

e. The first Extraordinary Meeting of the Board of Directors was held on April 24, 2007 by way of circulation of written resolution, and the resolution on the approval and authorization of the Secretary of the Board of Directors to sign the 20-F form for 2006 was passed during the meeting.

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f. The second Extraordinary Meeting of the Board of Directors was held on May 16, 2007 by way of circulation of written resolution, and the resolution on the election of Chairman was passed during the meeting.

g. The third Extraordinary Meeting of the Board of Directors was held on December 27, 2007 by way of circulation of written resolution, and the resolution on matters related with the capital injection in CNPC Exploration and Development Company Limited was passed at the meeting.

Reference can be made to the announcement of the resolution published on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange on December 27, 2007 and in China Securities Journal, Shanghai Securities Journal and Securities Times on December 28, 2007.

(2) Members of the Board of Directors and attendance rate of Directors

| POSITION ----- | NAME ---- | ATTENDANCE RATE (%) ----- |
|-------------------------|--------------|------------------------------|
| Chairman | Jiang Jiemin | 100 |
| Executive Director | Duan Wende | 100 (100 of which by proxy) |
| Non-executive Directors | Zheng Hu | 100 (25 of which by proxy) |

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| | | | |
|-------------------------------------|----------------|-----|------------------------|
| | Zhou Jiping | 100 | |
| | Wang Yilin | 100 | |
| | Zeng Yukang | 100 | (50 of which by proxy) |
| | Gong Huazhang | 100 | (25 of which by proxy) |
| | Jiang Fan | 100 | |
| Independent Non-executive Directors | Chee-Chen Tung | 100 | |
| | Liu Hongru | 100 | |
| | Franco Bernabe | 100 | (25 of which by proxy) |

Note:

Mr Chen Geng retired from his office as Director with effect on May 16, 2007. During the reporting period, Mr Chen Geng attended one meeting of the Board of Directors and attained a 100% attendance rate.

(3) The implementation of AGM resolutions by the Board of Directors

All members of the Board of Directors have conscientiously and tirelessly performed their duties, implemented the resolutions passed at the AGM and accomplished all tasks as authorized by the AGM according to the relevant laws, regulations and rules of the respective jurisdictions where Company shares are listed and the provisions as set out in the Company's Articles of Association.

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(4) Work of the special committees of the Board of Directors

a. Audit Committee

During the reporting period, the Audit Committee held five regular meetings of which one of the meetings were held by way of written resolution.

On March 17, 2007, for the sixth meeting of the third term of the Board of Directors, the Audit Committee reviewed the Company's Financial Statements for 2006 (including the announcement of the annual results for the year ended December 31, 2006), the Company's Draft Profit Distribution Plan for 2006, Report on the Company's Continuing Connected Transactions in 2006, Assessment Report on Internal Control Test, the Company's Audit Work Report, Resolution on the Appointment of International and Domestic Accounting Firm for 2007, Resolution on the Transfer of shareholding of China United Oil Corporation Limited, PricewaterhouseCoopers' Report to the Audit Committee of the Board of Directors and prepared the Audit Opinion of the Audit Committee of the Board of Directors on the Financial Statements for 2006 and the Audit Opinion of the Audit Committee of the Board of Directors on the draft Profit Distribution Plan for 2006.

On June 18, 2007, for the seventh meeting of the third term of the Board of Directors, the Audit Committee reviewed the Report on Internal Control System Operation, The Company's Internal Audit Work Report, Proposal on the Audit Fee of PricewaterhouseCoopers for 2007, PricewaterhouseCoopers' Report to the Audit Committee of the Company's Board of Directors and prepared the Audit Opinion of the Audit Committee of the Board of Directors.

On August 21, 2007, for the eighth meeting of the third term of the Board of Directors, the Audit Committee reviewed the Company's Interim Financial Statements for 2007 (including the publication of annual results for the six months ended June 30, 2007), the Company's Draft Interim Profit Distribution Plan for 2007, Report on Internal Control System Operation, The Company's

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Internal Audit Work Report, PricewaterhouseCoopers' Report to the Audit Committee of the Company's Board of Directors and prepared the Audit Opinion of the Audit Committee of the Board of Directors on the Interim Financial Statements for 2007 and the Audit Opinion of the Audit Committee of the Board of Directors on the Draft Interim Profit Distribution Plan for 2007.

On November 19, 2007, for the ninth meeting of the third term of the Board of Directors, the Audit Committee reviewed the Report on Internal Control System Operation, the Company's Internal Audit Work Report, PricewaterhouseCoopers' Report to the Audit Committee of the Company's Board of Directors and prepared the Audit Opinion of the Audit Committee of the Board of Directors.

On April 30, 2007, for the Extraordinary Meeting of the Board of Directors, the Audit Committee reviewed and passed the Report on the U. S. Exchange Visit for the Audit Personnel on Sarbanes-Oxley Act and Anti-Abusive Practice by way of written resolution.

b. Investment and Development Committee

On March 15, 2007, for the sixth meeting of the third term of the Board of Directors, the Investment and Development Committee reviewed the Resolution on the Authorization of

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Short-term Investment Quota for 2007 and prepared the Opinion of the Investment and Development Committee of the Board of Directors on the Authorization of Short-term Investment Quota for 2007.

On November 19, 2007, for the ninth meeting of the third term of the Board of Directors, the Investment and Development Committee reviewed the Resolution on the Company's Investment Plan for 2008 and prepared the Opinion of the Investment and Development Committee of the Board of Directors on the Company's Investment Plan for 2008.

c. Examination and Remuneration Committee

On March 15, 2007, for the sixth meeting of the third term of the Board of Directors, the Examination and Remuneration Committee reviewed the Report on Assessment of the Completion of Performance Targets by the President's Work Team for Year 2006 and the Formulation of Performance Contract for Year 2007 and prepared the Opinion of the Examination and Remuneration Committee of the Board of Directors on the Report on Assessment of the Completion of Performance Targets by the President's Work Team for Year 2006 and the Formulation of Performance Contract for Year 2007.

d. Health, Safety and Environment Committee

On March 17, 2007, for the sixth meeting of the third term of the Board of Directors, the Health, Safety and Environment Committee reviewed the Company's Health, Safety and Environment Work Report for 2006 and prepared the Opinion of the Health, Safety and Environment Committee of the Board of Directors on the Company's Health, Safety and Environment Work Report for 2006.

During the reporting period, for the attendance of the Audit Committee meetings, reference can be made to the "Audit Committee" section under the Corporate Governance Structure of this Annual Report. All members of the Investment and Development Committee, Examination and Remuneration Committee and Health, Safety and Environment Committee attended all meetings as convened by

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these special committees.

6. RESULTS

The results of the Group for the year ended December 31, 2007 prepared in accordance with IFRS are set out in the Consolidated Profit and Loss Account on page 174.

The financial condition of the Group as at December 31, 2007 are set out in the Consolidated Balance Sheet prepared in accordance with IFRS on page 175.

The Consolidated Cash Flows Statement of the Group for the year prepared in accordance with IFRS is set out in the statement on page 177.

7. 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 less the interim dividends for 2007 paid on September 28, 2007. The proposed final dividends are subject to equity holders' review and approval at the

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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.

8. FIVE-YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 5.

9. BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at December 31, 2007 are set out in note 28 to the financial statements prepared in accordance with IFRS in this annual report.

10. INTEREST CAPITALISATION

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Interest capitalisation for the Group for the year ended December 31, 2007 was RMB1,734 million.

11. FIXED ASSETS

Changes to the fixed assets of the Company and the Group during the year are summarised in note 16 to the financial statements prepared in accordance with IFRS in this annual report.

12. LAND VALUE APPRECIATION TAX

No land value appreciation tax was payable by the Group during the year.

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13. RESERVES

Details of changes to the reserves of the Company and the Group for the year ended December 31, 2007 are set out in note 30 to the financial statements prepared in accordance with IFRS in this annual report.

14. DISTRIBUTABLE RESERVES

As at December 31, 2007, the reserves of the Company that can be distributed as dividend were RMB228,016 million.

15. STATUTORY COMMON WELFARE FUND

Details of the statutory welfare fund, such as the nature, application and movements and the basis of calculation (including the percentage and profit figure used for calculating the amounts) are set out in note 30 to the financial statements prepared in accordance with IFRS in this annual report.

16. MANAGEMENT CONTRACT

During the year, the Company did not enter into any management contracts concerning the management or administration of its overall business or any of its material business, nor did any such management contract exist.

17. MAJOR SUPPLIERS AND CUSTOMERS

CNPC is the Group's largest supplier of goods and services and the aggregate purchase attributable to CNPC was 39% of the total purchase of the Group for 2007. The aggregate purchase attributable to the five largest suppliers of the Group was 47% of the Group's total purchase.

The aggregate revenue derived from the major customers is set out in note 37 to the financial statements prepared in accordance with IFRS in this annual report. The aggregate revenue derived from the five largest customers was less than 30% of the Group's total sales.

Save as disclosed above, none of the Directors, Supervisors and their associates or any shareholder (who to the knowledge of the Directors were holding 5% or more of the Company's share capital) had any interest in any of the above-mentioned suppliers and customers.

18. REPURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company or any of its subsidiaries did not sell any securities of the

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Company, nor did it repurchase or redeem any of the securities of the Company during the twelve months ended December 31, 2007.

19. TRUST DEPOSITS AND IRRECOVERABLE OVERDUE TIME DEPOSITS

As at December 31, 2007, the Company did not have any trust deposits or irrecoverable overdue time deposits.

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20. PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights under the Articles of Association of the Company or the PRC laws.

21. SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the reporting period.

22. QUALIFIED ACCOUNTANT

In an announcement dated October 18, 2004, the Company announced that it had not been able to find a suitable accountant with professional accounting qualifications recognised to assume the position of qualified accountant as required under Rule 3.24 of the Listing Rules by September 30, 2004. The Company is still in the process of identifying suitable candidates with professional accounting qualifications to assist the Chief Financial Officer to oversee the compliance by the Company of the financial reporting and other related accounting matters. However, despite numerous attempts to find such a candidate, given the importance of the role and the function of the qualified accountant, the Company has still not been able to find a suitable candidate that meets all the requirements in Rule 3.24 of the Listing Rules. The Company is trying its best to identify a candidate with the appropriate qualifications, experience and understanding of the oil and gas industry to act as the joint qualified accountant to assist the Chief Financial Officer of the Company to carry out his duties. The Company will make an application for a 3-year waiver to the HKSE when it has identified the joint qualified accountant.

By Order of the Board
Jiang Jiemin
Chairman
Beijing, the PRC
March 19, 2008

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REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the year 2007, the Supervisory Committee has carried out their duties conscientiously and in accordance with the relevant provisions of the Company Law of the PRC and the Articles of Association of the Company.

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During the reporting period, the Supervisory Committee held two meetings.

On March 16, 2007, the fifth meeting of the third term of the Supervisory Committee was convened in Beijing. The meeting was chaired by Mr Wang Fucheng, Chairman of the Supervisory Committee. The meeting considered and approved the Financial Report of the Company for 2006, the Draft Profit Distribution Plan for 2006, the Report on Assessment of the Completion of Performance Targets by the President's Work Team for 2006 and Formulation of Performance Contracts for 2007, the Resolution on the Appointment of International and Domestic Accounting Firm for 2007, and the Supervisory Committee's Report for 2006.

On August 21, 2007, the sixth meeting of the third term of the Supervisory Committee was convened in Beijing. The meeting was chaired by Mr Wang Fucheng, Chairman of the Supervisory Committee. The meeting considered and approved the 2007 interim report and the draft 2007 interim profit distribution plan.

Further, during the reporting period the Supervisory Committee attended the annual general meeting for the year 2006 and an extraordinary general meeting in 2007; attended four meetings of the Board of Directors and submitted five written opinions to the Board of Directors in respect of, inter alia, its review of the financial reports of the Company, the draft profit distribution plan and assessment of the performance of the President's Work Team. The Supervisory Committee conducted two supervisory hearings, received fourteen reports submitted by, inter alia, the Finance Department, Audit Department, Human Resources Department, Supervisory Department and PricewaterhouseCoopers Zhong Tian CPAs Company Limited, and reviewed and issued relevant opinions on, inter alia, the Company's financial affairs, profit distribution, connected transactions and assessment of the performance of the President's Work Team. The Supervisory Committee completed two random financial auditing investigations, performed random auditing on eight departments, prepared a total of ten investigation reports and general reports and put forward 37 recommendations. The Supervisory Committee also made one supervisory inspection tour, prepared one report and put forward five recommendations. Through the above activities, the Supervisory Committee has reinforced its supervision on the financial affairs of the Company and the performance of duties by the senior management. It has enhanced the effect of supervision and protected the rights of the shareholders as well as the interests of the Company.

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The Supervisory Committee is of the opinion that in 2007, facing changes in the domestic and international macro operating environments, the Company has adopted various effective measures, implemented the strategies of resources, marketing and internationalisation of operation in the best manner, persisted in carrying out further corporate reforms, and achieved progress in key tasks. The principal business of the Company continued to develop. There were breakthroughs in oil and gas exploration. Oil production remained steady, while production of natural gas remained at a high growth. The refining and petrochemical business mix was optimized. Major projects were completed and production commenced. A refined products sales and marketing network covering the whole of China was primarily established. International businesses maintained a good momentum of development. The Company became more competitive in the market. The overall business strengths of the Company were enhanced markedly.

1. OPINION OF THE SUPERVISORY COMMITTEE ON THE LAWFUL OPERATION OF THE COMPANY

In year 2007, the Company's internal control system improved gradually. The

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Company's overall financial position was further improved. Quality of the fixed assets of the Company improved steadily. Both the debt to asset ratio and the gearing ratio continued to drop. The Company's repayment capability improved, and the Company's financing capability was strengthened. Returns for the shareholders of the Company increased steadily.

The Company managed to comply with laws and standards in its decision-making process and operations. The Directors of the Company have complied with the applicable laws and regulations of the PRC and the Company's places of listing and the Company's Articles of Association in the performance of their duties, and has conscientiously implemented resolutions at the shareholders' general meetings. The President's Work Team complied with laws and standards in its decision-making process and operations, and have met appraisal standards in all aspects.

2. OPINION OF THE SUPERVISORY COMMITTEE ON INSPECTION OF THE FINANCIAL STATUS OF THE COMPANY

The financial reports of the Company have been prepared in accordance with CAS and IFRS. The financial reports audited by PricewaterhouseCoopers Zhong Tian CPAs Company Limited and PricewaterhouseCoopers give a true and fair view on the financial position, operating results and cash flows of the Company. The unqualified opinions issued are objective and fair.

3. OPINION OF THE SUPERVISORY COMMITTEE ON THE USE OF PROCEEDS FROM THE LATEST FUND RAISING EXERCISE

During the reporting period, proceeds from issue of A shares were applied in the manner as undertaken.

4. OPINION OF THE SUPERVISORY COMMITTEE ON THE ACQUISITION AND DISPOSAL OF ASSETS BY THE COMPANY

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During the reporting period, acquisition and disposal of assets of the Company were carried out at reasonable considerations, and no insider dealing was discovered. No prejudice to shareholders' rights, dissipation of the Company's assets or prejudice to the Company was discovered.

5. OPINION OF THE SUPERVISORY COMMITTEE ON CONNECTED TRANSACTIONS OF THE COMPANY

During the year, continuing connected transactions of the Company were carried out with the approval of the Hong Kong Stock Exchange and within the limits approved at the extraordinary general meetings of the Company. Connected transactions were carried out at reasonable and fair considerations, and no prejudice to the non-connected shareholders or the Company was discovered.

The Supervisory Committee is satisfied with the results achieved by the Company in 2007 and is confident of the prospects of the Company.

The Supervisory Committee hopes that, in 2008, the Company will fully implement the target of developing the Company into a comprehensive international energy company, making the best endeavours to complete tasks in relation to resources, marketing, human resources, technology and management, persistently enhancing its ability to make innovations, steadily improving the core competitiveness of the Company in both the

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domestic and overseas markets and to facilitate further improvement of the overall strength of the Company.

In 2008, the Supervisory Committee will continue to fulfil its various duties conscientiously and in compliance with the Company Law of the PRC, the Articles of Association of the Company and other relevant regulations.

By Order of the Supervisory Committee
Wang Fucheng
Chairman of the Supervisory Committee
Beijing, the PRC
March 19, 2008

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

1. INFORMATION ON THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Directors

Information on the current Directors is set out below:

| NAME ---- | GENDER ----- | AGE --- | POSITION ----- | TERM ---- | REMUNERATION RECEIVED FROM THE COMPANY IN 2007 (RMB'000) ----- | WHETHER RECEIVED REMUNERATION FROM OFFICES HELD IN CNPC ----- |
|-----------------|-----------------|------------|---|-----------------|--|--|
| Jiang Jiemin(1) | M | 52 | Chairman and President | 2007.05-2010.05 | 916 | No |
| Duan Wende (1) | M | 56 | Executive Director and Senior Vice President | 2007.05-2010.05 | 824 | No |
| Zheng Hu | M | 61 | Non-Executive Director | 2006.05-2009.05 | -- | Yes |
| Zhou Jiping | M | 55 | Non-Executive Director | 2007.05-2010.05 | -- | Yes |
| Wang Yilin | M | 51 | Non-Executive Director | 2005.11-2008.11 | -- | Yes |
| Zeng Yukang | M | 57 | Non-Executive Director | 2005.11-2008.11 | -- | Yes |
| Gong Huazhang | M | 61 | Non-Executive Director | 2005.11-2008.11 | -- | Yes |
| Jiang Fan | M | 44 | Non-Executive Director | 2005.11-2008.11 | 499 | No |

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|----------------|---|----|--|-----------------|-----|----|
| Chee-Chen Tung | M | 65 | Independent Non-Executive Director | 2005.11-2008.11 | 264 | No |
| Liu Hongru | M | 77 | Independent Non-Executive Director | 2005.11-2008.11 | 349 | No |
| Franco Bernabe | M | 59 | Independent Non-Executive Director | 2006.05-2009.05 | 257 | No |

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.

BRIEF BIOGRAPHY OF DIRECTORS:

- Chairman

JIANG JIEMIN: aged 52, is the Chairman and President of the Company and the General Manager of CNPC. Mr Jiang is a senior economist and has been awarded with post-graduate qualification. Mr Jiang has over 30 years of working experience in China's oil and gas industry. He was made Deputy Director of the Shengli Petroleum Administration Bureau in

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March 1993, Senior Executive of the Qinghai Petroleum Administration Bureau in June 1994 and Director of Qinghai Petroleum Administration Bureau in November 1994, Assistant to the General Manager and Team Leader for the Restructuring and Listing Preparatory Team of CNPC in February 1999, and a Director and Vice President of the Company from November 1999 to June 2000. Mr Jiang was appointed Deputy Provincial Governor of Qinghai Province since June 2000, was made a member of the provincial party committee of the Qinghai Province and Deputy Provincial Governor of Qinghai Province since November 2000, and the deputy secretary of the provincial party committee of Qinghai Province and Deputy Provincial Governor of Qinghai Province since June 2003. Mr Jiang became the Deputy General Manager of CNPC since April 2004 and was appointed the Vice Chairman and President of the Company in May 2004 and the General Manager of CNPC since November 2006. Mr Jiang became the Chairman of the Company since May 2007.

- Executive Director

DUAN WENDE: aged 56, is a Director and Senior Vice President of the Company, and a Deputy General Manager of CNPC. He is a professor-level senior engineer and has been awarded with post-graduate qualification. He has over 35 years of working experience in China's petrochemical industry. From April 1975 to May 1997, Mr Duan was the Deputy Factory Manager of Fushun Chemical Fibres Factory, the Commander of the Fushun Ethylene Project Command Division, Deputy Factory Manager of the ethylene factory, the Factory Manager of the acrylic fibres factory and the detergent factory. Mr Duan has been the Deputy Manager of Fushun Petrochemical Corporation since May 1997 and the Manager of Fushun Petrochemical Corporation since May 1999. He has been appointed as the General Manager of Fushun Petrochemical Branch Company since October 1999. He has been the Assistant to the General Manager of CNPC since August 2001. He has been a Vice President of the Company since March 2002. Mr Duan became the Deputy

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General Manager of CNPC since December 2003. He has been appointed as a Director and Vice President of the Company since May 2004. Mr Duan has been appointed as a Senior Vice President of the Company since November 2005.

- Non-executive Directors

ZHENG HU: aged 61, is a Director of the Company. Mr Zheng is a professor-level senior engineer and holds a college degree. He has nearly 40 years of working experience in China's oil and gas industry. From May 1990 to July 1992, Mr Zheng was the Vice Chancellor of Beijing Petroleum Managers Training Institute. From July 1992 to September 1994, Mr Zheng worked as Deputy General Manager of China Petroleum Materials and Equipment (Group) Corporation and China Petroleum Technology Development Corporation, and from September 1994 as General Manager of China Petroleum Materials and Equipment (Group) Corporation and China Petroleum Technology Development Corporation. From September 1999, he worked as director of Personnel and Labour Department of CNPC. He was appointed as a

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Deputy General Manager of CNPC from August 2000 to February 2007. Mr Zheng has been appointed as Counsellor of the State Council since February 2006. He has been appointed as a Director of the Company since June 2000.

ZHOU JIPING: aged 55, is a Director of the Company and a Deputy General Manager of CNPC. Mr Zhou is a professor-level senior engineer and holds a master's degree. He has over 35 years of working experience in China's oil and gas industry. In November 1996, he was the Deputy Director of the International Exploration and Development Co-operation Bureau of China National Petroleum Company and Deputy General Manager of China National Oil & Gas Exploration and Development Corporation. In December 1997, he was appointed as General Manager of China National Oil and Gas Exploration and Development Corporation and Deputy Director of the International Exploration and Development Co-operation Bureau of China National Petroleum Company. Since August 2001, he was the Assistant to the General Manager of CNPC and General Manager of China National Oil & Gas Exploration and Development Corporation. Since December 2003, Mr Zhou has been a Deputy General Manager of CNPC. Mr Zhou has been appointed as a Director of the Company in May 2004.

WANG YILIN: aged 51, is a Director of the Company and a Deputy General Manager of CNPC. Mr Wang is a professor-level senior engineer and holds a doctorate degree. He has nearly 25 years of working experience in China's oil and gas industry. Mr Wang had been the Deputy Director and Chief Exploration Geologist of Xinjiang Petroleum Administration Bureau since June 1996. He was appointed as the General Manager of PetroChina Xinjiang Oilfield Company since September 1999. He had been the Senior Executive of Xinjiang Petroleum Administration Bureau and the General Manager of PetroChina Xinjiang Oilfield Company since June 2001. From July 2003 onwards, he was appointed as the Assistant to General Manager of CNPC, Senior Executive of Xinjiang Petroleum Administration Bureau and the General Manager of PetroChina Xinjiang Oilfield Company concurrently. In December 2003, he was appointed as the Deputy General Manager of CNPC and Senior Executive of Xinjiang Petroleum Administration Bureau and the General Manager of PetroChina Xinjiang Oilfield Company concurrently. In May 2004, he ceased to be the Senior Executive of Xinjiang Petroleum Administration Bureau and the General Manager of PetroChina Xinjiang Oilfield Company. From July 2004 to July 2007, he also worked as the Safety Director of CNPC. He has been appointed as a Director of the Company since November 2005.

ZENG YUKANG: aged 57, is a Director of the Company and a Deputy General

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Manager of CNPC. Mr Zeng is a professor-level senior economist and holds a college degree. He has nearly 40 years of working experience in China's oil and gas industry. Mr Zeng had been the Senior Executive of the Exploration and Development Institute of Daqing Petroleum Administration Bureau since December 1996. From February 2000 onwards, he was appointed as the Standing Deputy Director of Daqing Petroleum Administration Bureau. Since March 2001, he was appointed as the Director of Daqing Petroleum Administration Bureau. Since

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November 2002, he was the Assistant to the General Manager of CNPC. From September 2005 onwards, he has been a Deputy General Manager of CNPC. He has been appointed as a Director of the Company since November 2005.

GONG HUAZHANG: aged 61, is a Director of the Company. Mr Gong is a professor-level senior accountant and has over 40 years of working experience in China's oil and gas industry. Mr Gong worked as the Chief Accountant, deputy director and director of the Finance Bureau of China National Petroleum Company since 1991. He was the director of Finance and Assets Department of CNPC since October 1998 and has been the Chief Accountant of CNPC from February 1999 to February 2007. He has been appointed as a director of China Yangtze Power Co., Ltd. since September 2002 and an independent non-executive director of China Southern Airlines Company Limited since June 2007 and China Railway Group Limited since August 2007. Mr Gong has been appointed as a Director of the Company since November 1999.

JIANG FAN: aged 44, is a Director of the Company and the President of PetroChina Dalian Petrochemical Company. Mr Jiang is a professor-level senior engineer and holder of a master's degree. He has over 20 years of working experience in China's petrochemical industry. Mr Jiang was appointed as the Deputy Manager of PetroChina Dalian Petrochemical Company since December 1996. In September 1999, he was appointed as the Deputy General Manager of PetroChina Dalian Petrochemical Company. In February 2002, he became the General Manager of PetroChina Dalian Petrochemical Company. Mr Jiang has been appointed as a Director of the Company since November 2005.

- Independent Non-executive Directors

CHEE-CHEN TUNG: aged 65, is an independent non-executive Director of the Company. Mr Tung is the Chairman and Chief Executive Officer of Orient Overseas (International) Limited and was educated at the University of Liverpool, England, where he received his Bachelor of Science degree. He later acquired a Master's degree in Mechanical Engineering at the Massachusetts Institute of Technology in the United States. He served as Chairman of the Hong Kong Shipowners' Association between 1993 and 1995. From 1999 to 2001, he was the Chairman of the Hong Kong General Chamber of Commerce. He is an independent non-executive director of Zhejiang Expressway Co. Ltd., BOC Hong Kong (Holdings) Limited, Wing Hang Bank, Limited, Sing Tao News Corporation Limited, Cathay Pacific Airways Limited and U-Ming Marine Transport Corporation, and a member of the Hong Kong Port Development Board. Mr Tung is also the Chairman of the Institute for Shipboard Education Foundation, the Chairman of the Advisory Council and member of Council of the Hong Kong Polytechnic University, and is a member of the Board of Trustees of the International Academic Centre of the University of Pittsburgh and the School of Foreign Service of Georgetown University. Mr Tung has been appointed as an independent non-executive Director of the Company since November 1999.

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LIU HONGRU: aged 77, is an independent non-executive Director of the Company. Mr Liu is a professor and holds a doctorate degree. He graduated from the Faculty of Economics of the University of Moscow in 1959 with an associate doctorate degree. Mr Liu worked as Vice-Governor of the Agricultural Bank of China, Vice-Governor of the People's Bank of China, Deputy Director of the State Economic Restructuring Committee, and the Chairman of the China Securities Regulatory Commission. Mr Liu is currently the Vice Chairman of the Subcommittee for Economic Affairs of the National Committee of the Chinese People's Political Consultative Conference, the Vice President of the China Society for Finance and Banking, the Vice President of the National Debt Association of China and President of the Shanghai Institute of Finance and Law. Mr Liu is also a professor at the Peking University, the Postgraduate School of the People's Bank of China and the City University of Hong Kong. Mr Liu serves as a non-executive director of OP Financial Investments Limited and as an independent non-executive director of CITIC 21CN Company Limited and Minmetals Resources Limited, and possesses the accounting or financial management qualification required under the Listing Rules. Mr Liu was appointed as an independent Supervisor of the Company in December 1999. Upon his resignation from this post, Mr Liu has been appointed as an independent non-executive Director of the Company since November 19, 2002.

FRANCO BERNABE: aged 59, is an independent non-executive Director of the Company. Mr Bernabe holds a doctorate degree in political economics and is the Chairman of the Franco Bernabe Group, the Vice Chairman of H3G, the Vice Chairman of Rothschild Europe, a non-executive director of Pininfarina Spa and an independent non-executive director of Areoportidi Bologna. He was a former Chief Executive Officer of ENI and Telecom Italia. He has also served as a special representative of the Italian government for the reconstruction of the Balkan region. Mr Bernabe joined ENI in 1983 to become an assistant to the chairman; in 1986 he became director for development, planning and control; and between 1992 and 1998 was the Chief Executive Officer of ENI. Mr Bernabe led the restructuring program of the ENI Group, making it one of the world's most profitable oil companies. Between 1998 and 1999, Mr Bernabe was the Chief Executive Officer of Telecom Italia. Prior to his joining ENI, Mr Bernabe was the head of economic studies at FIAT. Mr Bernabe was a senior economist at the OECD Department of Economics and Statistics in Paris. Prior to that, he was a professor of economic politics at the School of Industrial Administration, Turin University. Mr Bernabe has been appointed as an independent non-executive Director of the Company since June 2000.

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(2) Supervisors

Information on the current Supervisors is set out below:

| NAME | GENDER | AGE | POSITION | TERM | REMUNERATION RECEIVED FROM THE COMPANY IN 2007 (RMB'000) | WHETHER RECEIVED REMUNERATION FROM OFFICES HELD IN CNPC |
|------|--------|-----|----------|-------|---|---|
| ---- | ----- | --- | ----- | ----- | ----- | ----- |
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| | | | | | | |
|--------------|---|----|--|-----------------|-----|-----|
| Wang Fucheng | M | 57 | Chairman of Supervisory Committee | 2005.11-2008.11 | -- | Yes |
| Wen Qingshan | M | 49 | Supervisor | 2005.11-2008.11 | -- | Yes |
| Sun Xianfeng | M | 55 | Supervisor | 2007.05-2010.05 | -- | Yes |
| Zhang Jinzhu | M | 59 | Supervisor | 2007.05-2010.05 | 333 | No |
| Qin Gang | M | 54 | Supervisor appointed by employees' representatives | 2005.11-2008.11 | 469 | No |
| Li Yongwu | M | 63 | Independent Supervisor | 2005.11-2008.11 | 315 | No |
| Wu Zhipan | M | 51 | Independent Supervisor | 2005.11-2008.11 | 319 | No |

BRIEF BIOGRAPHY OF THE SUPERVISORS:

- Chairman

WANG FUCHENG: aged 57, is the Chairman of the Supervisory Committee of the Company and the Deputy General Manager of CNPC. Mr Wang is a professor-level senior economist and holds a bachelor's degree. Mr Wang has over 40 years of working experience in China's oil and gas industry. From August 1986 to December 1992, Mr Wang worked as Senior Executive of the Shengli Petroleum Administration Bureau. Since December 1992, Mr Wang worked as Senior Executive of the Liaohe Oil Exploration Bureau. Since November 1997, Mr Wang worked as Director of the Liaohe Oil Exploration Bureau. Since October 1999, Mr Wang was the General Manager of PetroChina Liaohe Oilfield Company. Mr Wang was appointed as a Director of the Company in June 2000 and was appointed as the Vice President of the Company in July 2000. Mr Wang has been appointed as the Chairman of the Supervisory Committee of the Company since November 2005. Prior to the appointment as Supervisor of the Company, Mr Wang has resigned from his office as Director of the Company. Mr Wang became the Deputy General Manager of CNPC since September 2007.

- Supervisors

WEN QINGSHAN: aged 49, is a Supervisor of the Company, the Deputy Chief Accountant of CNPC and the Director of the Finance and Assets Department of CNPC. Mr Wen is a professor-level senior accountant and holder of a bachelor's degree. He was the Deputy Chief Accountant of the Finance and Assets Department of CNPC from November 1998, Deputy

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Director of the Finance and Assets Department of CNPC from May 1999 and Director of the Finance and Assets Department of CNPC from May 2002. He has been a Supervisor of the Company since November 2002. Mr Wen has been appointed as the Deputy Chief Accountant of CNPC since November 2007.

SUN XIANFENG: aged 55, is a Supervisor and the General Manager of the Audit Department of the Company and the Director of the Audit Department and the Audit Services Centre of CNPC. Mr Sun holds a college degree and is a senior economist. Mr Sun worked as Deputy Director of the Supervisory Bureau of China National Petroleum Company from November 1996, before being transferred to the Eighth Office of the State Council Compliance Inspectors' General Office (Supervisory Committee of Central Enterprises Working Commission) as its temporary person-in-charge in June 1998. He has been the Deputy Director of the

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Audit Department of CNPC from October 2000, and as the Director of the Audit Services Centre since December 2000. He has been the Director of the Audit Department of CNPC and the Director of the Audit Services Centre since April 2004. He has been a Supervisor of the Company since May 2004. Mr Sun has been the General Manager of the Audit Department of the Company since July 2007.

ZHANG JINZHU: aged 59, is a Supervisor of the Company and the Head of the Office of the Supervisory Committee of the Company. Mr Zhang is a senior accountant and holder of bachelor's degree. Mr Zhang worked as the Deputy Director-General of the Bureau of Finance and Equipment of The Supreme Court of the PRC since May 1995, Deputy Executive of the Petroleum Economic and Information Research Institute of CNPC since June 1999, Deputy General Manager of the Finance Department of the Company since August 2000 and the Head of the Office of the Supervisory Committee of the Company since November 2005. He has been a Supervisor of the Company since May 2007.

QIN GANG: aged 54, is an employee representative of the Company's Supervisory Committee and a Senior Executive of the PetroChina West-East Gas Pipeline Company. Mr Qin is a senior engineer and has nearly 35 years of experience in China's oil and gas industry. Mr Qin has acted as a Deputy Commander of Tarim Petroleum Exploration and Development Headquarters since November 1997 and a Deputy General Manager of PetroChina Tarim Oilfield Company since September 1999. From June 2000, Mr Qin worked as the Senior Executive of Tarim Southwest Company concurrently. Since July 2002, Mr Qin has worked as an Executive and the Chairman of Labour Union of PetroChina Tarim Oilfield Company. Mr Qin became the Senior Executive and the Chairman of the Labour Union of PetroChina West-East Gas Pipeline Company. Mr Qin was appointed as a Supervisor of the Company in November 2005.

- Independent Supervisors

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LI YONGWU: aged 63, is an independent Supervisor of the Company. Mr Li is a senior engineer and holder of a bachelor's degree. Since June 1991, Mr Li was appointed as the Director of Tianjin Chemicals Bureau. Since July 1993, he was appointed as the Director of Tianjin Economic Committee. He became the Deputy Minister of the Chemical Industry Ministry since April 1995. He became Director of the State's Petroleum and Chemical Industry Bureau since March 1998. Since April 2001, he was appointed as a Deputy Director of the Liaison Office of the Central Government at the Special Administrative Region of Macau. Since December 2004, he was appointed as the Vice President of China Petroleum and Petrochemical Industry Association. Since May 2005, he became the President of China Petroleum and Petrochemical Industry Association. Mr Li has been an Independent Supervisor of the Company since November 2005. In 2003, he was elected as a standing member of the Tenth Chinese People's Consultative Conference.

WU ZHIPAN: aged 51, is an independent Supervisor of the Company. Mr Wu is a holder of doctorate degree. He is a professor, a LL.D. Supervisor, Standing Vice Chairman of Peking University Council and Chief Legal Advisor of Peking University, Dean of the Asia-Pacific Research Institute of Peking University and Director of Financial Law Institute of Peking University. He is also an expert consultant of the Supreme People's Court of the PRC, an arbitrator of the Arbitration Panel of China International Economic and Trade Arbitration Commission and President of the China Economic Law Research Societies. Mr Wu was appointed as an independent non-executive director of Air China Limited, Fortune SGAM Fund Management Co., Ltd. and China Minsheng Banking Corp., Ltd. Mr Wu has been an independent Supervisor of the Company since December 1999.

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(3) Other members of the Senior Management

Information on other current members of the Senior Management is set out below:

| NAME | GENDER | AGE | POSITION | TERM | REMUNERATION RECEIVED FROM THE COMPANY IN 2007 (RMB'000) | WHETHER RECEIVED REMUNERATION FROM OFFICES HELD IN CNPC |
|------------------|--------|-----|---|----------|---|---|
| Liao Yongyuan(1) | M | 45 | Vice President | 2005.11- | 712 | No |
| Jia Chengzao(1) | M | 59 | Vice President | 2005.11- | 667 | No |
| Hu Wenrui(1) | M | 58 | Vice President | 2005.11- | 667 | No |
| Sun Longde | M | 45 | Vice President | 2007.06- | 493 | No |
| Shen Diancheng | M | 48 | Vice President | 2007.06- | 457 | No |
| Liu Hongbin | M | 44 | Vice President | 2007.06- | 269 | No |
| Zhou Mingchun | M | 40 | Chief Financial Officer | 2007.06- | 425 | No |
| Li Hualin | M | 45 | Vice President | 2007.11- | - | No |
| Lin Aiguo | M | 49 | Chief Engineer | 2007.06- | 422 | No |
| Li Huaiqi(1) | M | 58 | Secretary to the Board of Directors | 2001.08- | 667 | No |

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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.

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BRIEF BIOGRAPHY OF THE SENIOR MANAGEMENT

LIAO YONGYUAN: aged 45, is a Vice President of the Company and a Deputy General Manager and Safety Director of CNPC. Mr Liao is a master's degree holder and a professor-level senior engineer. He has 25 years of working experience in China's oil and gas industry. He was the Deputy Director of the New Zone Exploration and Development Department of China National Petroleum Company from June to November 1996, the Standing Deputy Commander and then Commander of Tarim Petroleum Exploration and Development Headquarters from November 1996 to September 1999. He was the General Manager of PetroChina Tarim Oilfield Company from September 1999 to October 2001, and also Deputy Director of Gansu Provincial Economic and Trade Committee from October 2001 to January 2004. He has worked as the Assistant to the General Manager of CNPC since January 2004. He has been concurrently the Head of Coordination Team for Oil Enterprises in Sichuan and Chongqing and Director of the Sichuan Petroleum Administration since April 2004. Mr Liao was appointed as a Deputy General Manager of CNPC since

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February 2007 and as the Safety Director since July 2007. He has been a Vice President of the Company since November 2005.

JIA CHENGZAO: aged 59, is a Vice President of the Company. Mr Jia is a professor-level senior engineer, a doctorate degree holder and a fellow of the Chinese Academy of Sciences. He has over 25 years of working experience in China's oil and geological industry. From August 1994, Mr Jia has worked as the Deputy Chief Geologist of the Tarim Oil Exploration and Exploitation Headquarters and the Chief Geologist and Deputy Commander of the Tarim Oil Exploration and Exploitation Headquarters. From September 1999, Mr Jia worked as the Deputy General Manager of PetroChina Tarim Oilfield Company whilst during February 1998 to July 2000, he was also a Vice President of the China Oil Exploration and Exploitation Scientific Research Institute of CNPC. He has been the Chief Geologist of the Company from July 2000. Mr Jia has also served as the President of the China Oil Exploration and Exploitation Research Institute from December 2002 to October 2006. Mr Jia has been a Vice President of the Company since November 2005.

HU WENRUI: aged 58, is a Vice President of the Company. Mr Hu is a professor-level senior engineer and has over 35 years of working experience in China's oil and gas industry. From April 1984, Mr Hu was the Manager of Changqing Oilfield No. 2 Oil Extraction Plant. He was the Deputy Director of Changqing Petroleum Exploration Bureau since April 1989, Standing Deputy Director since November 1996, and eventually Director of Changqing Petroleum Exploration Bureau since April 1999. From September 1999 to December 2002, he was the General Manager of PetroChina Changqing Oilfield Company. He has been the President of the Company's Exploration and Production Company since December 2002. Mr Hu has been a Vice President of the Company since November 2005.

SUN LONGDE: aged 45, is a Vice President of the Company. Mr Sun is a professor-level senior engineer and holds a doctorate's degree. He has nearly 25 years of working experience

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in China's oil and geological industry. Mr Sun has been the Deputy Chief Geologist of Xianhe Oil Extraction Plant and Deputy Manager of Dongxin Oil Extraction Plant of Shengli Petroleum Administration Bureau from January 1994, Chief Deputy Director-General of Exploration Business Department of Shengli Petroleum Administration Bureau from April 1997, the Manager of Exploration & Development Company of Shengli Petroleum Administration Bureau from September 1997, Chief Geologist of Tarim Petroleum Exploration & Development Headquarters from November 1997, Deputy General Manager of PetroChina Tarim Oilfield Company from September 1999 and the General Manager of PetroChina Tarim Oilfield Company from July 2002. Mr Sun was appointed as Vice President of the Company since June 2007.

SHEN DIANCHENG: aged 48, is the Vice President of the Company and concurrently the General Manager of Chemical & Marketing Company of the Company. Mr Shen is a professor-level senior engineer and holds a college degree. He has nearly 25 years of working experience in China's oil and petrochemical industry. Mr Shen has been the Deputy Manager of the Chemical Agent Plant of Daqing Oilfield from June 1994, the Deputy Manager, Standing Deputy Director and acting Manager of the Chemical Headquarters Plant of Daqing Oilfield from January 1997, the Standing Deputy General Manager of PetroChina Daqing Refining & Chemical Company from October 2000, the General Manager of PetroChina Liaoyang Petrochemical Company from April 2002, and the General Manager of PetroChina Jilin Petrochemical Company from December 2005. Mr Shen was appointed as the Vice President of the Company and General Manager of Chemical & Marketing

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Company since June 2007.

LIU HONGBIN: aged 44, is the Vice President of the Company. Mr Liu is a senior engineer and holds a college degree. He has nearly 25 years of working experience in China's oil and gas industry. Mr Liu has been the Vice President of Exploration & Development Research Institute of Yumen Petroleum Administration Bureau since May 1991, the Director of the Development Division of Tuha Petroleum Exploration & Development Headquarters from October 1994, the Chief Engineer of Tuha Petroleum Exploration & Development Headquarters from June 1995, the Deputy General Manager of PetroChina Tuha Oilfield Company from July 1999, the Commander of Tuha Petroleum Exploration & Development Headquarters from July 2000, the General Manager of the Planning Department of the Company from March 2002 and the Director of the Planning Department of CNPC from September 2005. Mr Liu was appointed as Vice President of the Company since June 2007.

ZHOU MINGCHUN: aged 40, is the Chief Financial Officer of the Company. Mr Zhou is a professor-level senior accountant and holds a master's degree. He has nearly 20 years of working experience in China's oil and gas industry. Mr Zhou has been concurrently the Director of the Finance Division and the Director-General of Financial Settlement Centre of Daqing Petroleum Administration Bureau from October 1998, the Executive of the Finance & Assets Division of Daqing Oilfield Company from September 1999, the director and Deputy

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Chief Accountant of Daqing Oilfield Company Limited from January 2000, the director and Chief Accountant of Daqing Oilfield Company Limited from October 2000, and the General Manager of the Finance Department of the Company from March 2002. Mr Zhou has been appointed as the Chief Financial Officer of the Company since June 2007.

LI HUALIN: aged 45, is the Vice President of the Company. Mr Li holds a master's degree and is a senior engineer. Mr Li has nearly 25 years of experience in the oil and gas industry in China. Since March 1993, Mr Li became the Deputy Director-General of the Houston Office of China National Petroleum Company. Since May 1995, he was appointed as the director and General Manager of China National Oil and Gas Corporation (Canada). Since December 1997, Mr Li became the Deputy General Manager of the China National Oil and Gas Exploration Development Corporation and the Chairman and General Manager of CNPC International (Canada) Ltd. Since September 1999, Mr Li became the General Manager of CNPC International (Kazakhstan) Ltd. whilst remaining as the Deputy General Manager of the China National Oil and Gas Exploration Development Corporation. Since January 2001, Mr Li became the Deputy General Manager of China Petroleum Hongkong (Holding) Limited and since December 2001, he also became the Chairman of Shenzhen Petroleum Industrial Co., Ltd. Since July 2006, Mr Li became the Vice-Chairman and General Manager of China Petroleum Hongkong (Holding) Limited, whilst remaining as the Chairman of Shenzhen Petroleum Industrial Co., Ltd. Mr Li has been appointed as the Vice President of the Company and the Vice-Chairman and General Manager of China Petroleum Hongkong (Holding) Limited since November 2007.

LIN AIGUO: aged 49, is the Chief Engineer of the Company. Mr Lin is a professor-level senior engineer and holds a college degree. He has over 30 years of working experience in China's oil and petrochemical industry. Mr Lin has been the Deputy Manager and the Standing Deputy Manager of Shengli Refinery of Qilu Petrochemical Company from July 1993, the Deputy General Manager of Dalian West Pacific Petrochemical Co. Ltd. from May 1996, the General Manager of Dalian West Pacific Petrochemical Co. Ltd. from August 1998. Mr Lin became the General

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Manager of Refining & Marketing Company of the Company since December 2002. Mr Lin has been appointed as the Chief Engineer of the Company since June 2007.

LI HUIQI: aged 58, is the Secretary to the Board of Directors. Mr Li is a senior economist. He has over 35 years of working experience in China's oil and gas industry. Mr Li once worked in the Daqing Oilfield, the Liaohe Oilfield and the Huabei Oilfield and in the Nanhai Petroleum Company. From June 1992 to October 1998, Mr Li worked as the Deputy Director and Director of the Foreign Affairs Bureau of China National Petroleum Company. From October 1998, Mr Li was appointed as Director of the International Co-operation Department (Foreign Affairs Bureau) of CNPC. Mr Li has been the Secretary to the Board of Directors since August 2001.

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2. ELECTION OR RETIREMENT OF DIRECTORS AND SUPERVISORS AND THE APPOINTMENT AND REMOVAL OF SENIOR MANAGEMENT

The term of office of four Directors (namely, Mr Chen Geng, Mr Jiang Jiemin, Mr Zhou Jiping and Mr Duan Wende) expired on May 17, 2007. According to Article 89 and Article 51 (13) of the Company's Articles of Association, each of Mr Jiang Jiemin, Mr Zhou Jiping and Mr Duan Wende werere-elected as Directors at the annual general meeting for 2006. Mr Chen Geng notified the Board that he would retire from his office and would not seek for re-election.

On May 20, 2007, an extraordinary meeting of the Board of Directors was convened to consider and appoint Mr Jiang Jiemin as the chairman of the Board of Directors.

On June 19, 2007, at the seventh meeting of the Third Session of the Board of Directors, the Company appointed each of Mr Sun Longde, Mr Shen Diancheng and Mr Liu Hongbin as Vice President, Mr Zhou Mingchun as the Chief Financial Officer and Mr Lin Aiguo as the Chief Engineer of the Company. On November 20, 2007, at the ninth meeting of the Third Session of the Board of Directors, the Company appointed Mr Li Hualin as Vice President of the Company.

The term of office of two Supervisors (namely, Mr Sun Xianfeng and Mr Xu Fengli) expired on May 17, 2007. According to Article 51 (3) and (13) of the Company's Articles of Association, Mr Sun Xianfeng and Mr Zhang Jinzhu were re-elected and elected as Supervisors respectively at the annual general meeting for 2006. Mr Xu Fengli notified the Board that he would retire from his office and would not seek for re-election.

3. INTERESTS OF DIRECTORS AND SUPERVISORS IN THE SHARE CAPITAL OF THE COMPANY

As at December 31, 2007, none of the Directors or Supervisors had any interest and short positions in any shares, underlying shares or debentures of the Company or any associated corporation within the meaning of Part XV of the SFO required to be recorded in the register mentioned under Section 352 of the SFO or as otherwise notifiable to the Company and the HKSE by the Directors and Supervisors pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

4. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

No service contract existed or has been proposed between the Company or any of its subsidiaries with any of the above Directors or Supervisors. No Director or Supervisor has entered into any service contract with the Company which is

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not terminable by the Company within one year without payment of compensation other than statutory compensation.

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5. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS

None of the Directors or Supervisors had any material personal interest, either directly or indirectly, in any contract of significance to which the Company or any of its subsidiaries was a party to during the year.

6. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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 Company's senior management remuneration policy links financial interests of the senior management with the Group's operating results and the performance of its shares in the market. For further details on remunerations, please refer to the tables set out in the "Directors, Supervisors and Senior Management" section.

7. EMPLOYEES OF THE GROUP

As at December 31, 2007, the Group had 466,502 employees (excluding temporary staff) and 48,007 retired members of staff.

The number of employees by business segment is set out below:

| | NUMBER OF EMPLOYEES ----- | PERCENTAGE OF TOTAL NO. OF EMPLOYEES (%) ----- |
|----------------------------|---------------------------------|---|
| Exploration and Production | 261,802 | 56.12 |
| Refining and Marketing | 122,593 | 26.28 |
| Chemicals and Marketing | 61,635 | 13.21 |
| Natural Gas and Pipeline | 15,706 | 3.37 |
| Other* | 4,766 | 1.02 |
| | ----- | ----- |
| Total | 466,502 | 100 |
| | ===== | ===== |

* includes staff of the Company's headquarters, specialised subsidiaries, Exploration & Development Research Institute, Planning & Engineering Institute, Petrochemical Research Institute and other units.

The employee structure by profession as of December 31, 2007 is set out below:

| | NUMBER OF EMPLOYEES ----- | PERCENTAGE OF TOTAL NO. OF EMPLOYEES (%) ----- |
|--|---------------------------------|---|
|--|---------------------------------|---|

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| | | |
|----------------|---------|--------|
| Production | 286,066 | 61.32 |
| Sales | 20,731 | 4.45 |
| Technology | 48,570 | 10.41 |
| Finance | 8,308 | 1.78 |
| Administration | 77,993 | 16.72 |
| Others | 24,834 | 5.32 |
| Total | 466,502 | 100.00 |

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The education levels of employees as of December 31, 2007 is set out below:

| | NUMBER OF EMPLOYEES ----- | PERCENTAGE OF TOTAL NO. OF EMPLOYEES (%) ----- |
|---|---------------------------------|---|
| Master and above | 7,616 | 1.63 |
| University | 78,667 | 16.86 |
| Polytechnic college | 96,737 | 20.74 |
| Technical secondary school | 47,132 | 10.10 |
| Senior middle school, secondary vocational school or below | 236,350 | 50.67 |
| Total | 466,502 | 100.00 |

8. EMPLOYEE WELFARE PLANS

Details on employee welfare plans of the Company are set out in note 34 to the financial statements prepared in accordance with IFRS in this annual report.

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INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES

The following table sets forth the Company's estimated proved reserves and proved developed reserves as at December 31, 2005, 2006 and 2007. This table is formulated on the basis of reports prepared by DeGolyer and MacNaughton and Gaffney, Cline & Associates, each an independent engineering consultancy company.

| | CRUDE OIL (MILLION OF BARRELS) ----- | NATURAL GAS (BILLION CUBIC FEET) ----- | COMBINED (MILLIONS OF BARRELS OF OIL EQUIVALENT) ----- |
|---|---|---|--|
| PROVED DEVELOPED AND UNDEVELOPED RESERVES | | | |
| Reserves as of December 31, 2005 (the basis date) | 11,536.2 | 48,123.1 | 19,556.7 |
| Revisions of previous estimates | 196.1 | 685.9 | 310.4 |
| Extensions and discoveries | 635.3 | 6,247.7 | 1,676.5 |

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| | | | |
|---|----------|----------|----------|
| Improved recovery | 81.1 | - | 81.1 |
| Production for the year | -830.7 | -1,587.5 | -1,095.3 |
| Reserves as of December 31, 2006 (the basis date) | 11,618.0 | 53,469.2 | 20,529.4 |
| Revisions of previous estimates | 83.7 | -1,063.0 | -93.5 |
| Extensions and discoveries | 763.9 | 6,331.4 | 1,819.1 |
| Improved recovery | 78.8 | 0 | 78.8 |
| Production for the year | -838.8 | -1,627.0 | -1,110.0 |
| Reserves as of December 31, 2007 (the basis date) | 11,705.6 | 57,110.6 | 21,223.9 |
| PROVED DEVELOPED RESERVES | | | |
| As of December 31, 2005 (the basis date) | 9,194.8 | 19,857.8 | 12,504.4 |
| As of December 31, 2006 (the basis date) | 9,185.2 | 22,563.9 | 12,945.8 |
| As of December 31, 2007 (the basis date) | 9,047.1 | 26,047.1 | 13,388.3 |

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(PRICEWATERHOUSECOOPERS LOGO)
(Chinese Characters)

PricewaterhouseCoopers Zhongtian
CPA Limited Company
11/F PricewaterhouseCoopers Centre
202 Hu Bin Road
Shanghai 200021
P.R.C
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REPORT OF THE AUDITORS

PWC ZT SHEN ZI (2008) NO. 10001
(PAGE 1/2)

To the Shareholders of PetroChina Company Limited:

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

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

(ii) Selecting and applying appropriate accounting policies; and

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

2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Auditing

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Standards for Certified Public Accountants of China. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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PWC ZT SHEN ZI (2008) NO. 10001
(PAGE 2/2)

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

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

3. OPINION

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

PricewaterhouseCoopers
Zhong Tian CPAs Limited Company Certified Public Accountant

Heping Feng

Shanghai, the People's Republic
of China March 19, 2008 Certified Public Accountant

Liwen Zhang

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PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT
DECEMBER 31, 2007
(All amounts in RMB millions unless otherwise stated)

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| ASSETS | NOTES | DECEMBER 31, 2007 THE GROUP | DECEMBER 31, 2006 THE GROUP | DECEMBER 31, 2007 THE COMPANY | DECEMBER 31, 2006 THE COMPANY |
|---------------------------------------|--------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| Current assets | | | | | |
| Cash at bank and on hand | 7(1) | 88,589 | 54,070 | 78,332 | 48,000 |
| Notes receivable | 7(2) | 4,735 | 2,844 | 3,988 | 2,000 |
| Accounts receivable | 7(3a) | 18,419 | 8,488 | 2,131 | 5,000 |
| Advances to suppliers | 7(4) | 20,386 | 12,664 | 16,086 | 8,900 |
| Interest receivable | | 109 | 81 | 109 | |
| Dividends receivable | | 18 | 13 | 85 | |
| Other receivables | 7(3b) | 15,444 | 10,515 | 24,173 | 12,900 |
| Inventories | 7(5) | 88,467 | 76,038 | 70,284 | 60,200 |
| Current portion of non-current assets | | 59 | -- | 59 | |
| Other current assets | | 2 | 4 | 2 | |
| Total current assets | | 236,228 | 164,717 | 195,249 | 132,900 |
| Non-current assets | | | | | |
| Available-for-sale financial assets | 7(6) | 2,530 | 1,860 | 1,456 | 7,000 |
| Long-term equity investments | 7(7) | 22,686 | 30,361 | 104,691 | 115,600 |
| Fixed assets | 7(8) | 247,803 | 231,590 | 199,411 | 179,600 |
| Oil and gas properties | 7(9) | 326,328 | 270,496 | 231,921 | 191,800 |
| Construction in progress | 7(11) | 105,634 | 64,652 | 85,597 | 53,400 |
| Construction materials | 7(10) | 6,927 | 8,664 | 5,455 | 7,600 |
| Fixed assets pending disposal | | 287 | 279 | 282 | 2,000 |
| Intangible assets | 7(12) | 20,022 | 16,127 | 16,356 | 12,200 |
| Long-term prepaid expenses | 7(13) | 12,028 | 11,194 | 9,924 | 9,200 |
| Deferred tax assets | 7(25a) | 12,871 | 14,391 | 9,048 | 7,700 |
| Other non-current assets | | 748 | 813 | -- | |
| Total non-current assets | | 757,864 | 650,427 | 664,141 | 578,500 |
| TOTAL ASSETS | | 994,092 | 815,144 | 859,390 | 711,400 |

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

Chairman and President
Jiang Jiemin

Director
Zhou Jiping

Chief Financial Officer
Zhou Mingchun

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PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT
31 DECEMBER 2007 (CONTINUED)
(All amounts in RMB millions unless otherwise stated)

| LIABILITIES AND SHAREHOLDERS' EQUITY | NOTES | DECEMBER 31, 2007 THE GROUP | DECEMBER 31, 2006 THE GROUP | DECEMBER 31, 2007 THE COMPANY | DECEMBER 31, 2006 THE COMPANY |
|---|-------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |

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

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

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Chairman and President
Jiang Jiemin

Director
Zhou Jiping

Chief Financial Officer
Zhou Mingchun

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PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2007
(All amounts in RMB millions unless otherwise stated)

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

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

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Chairman and President
Jiang Jiemin

Director
Zhou Jiping

Chief Financial Officer
Zhou Mingchun

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PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2007
(All amounts in RMB millions unless otherwise stated)

| ITEMS | NOTES | 2007 THE GROUP | 2006 THE GROUP | 2007 THE COMPANY | 2006 THE COMPANY |
|---|---------|----------------------|----------------------|------------------------|------------------------|
| 1. CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash received from sales of goods and rendering of services | | 965,346 | 820,389 | 695,780 | 602,560 |
| Refund of taxes and levies | | 960 | 728 | 854 | 595 |
| Cash received relating to other operating activities | | 697 | 201 | 2,237 | 7,104 |
| SUB-TOTAL OF CASH INFLOWS | | 967,003 | 821,318 | 698,871 | 610,259 |
| Cash paid for goods and services | | (459,872) | (368,323) | (415,800) | (354,847) |
| Cash paid to and on behalf of employees | | (50,420) | (37,670) | (35,378) | (26,927) |
| Payments of taxes and levies | | (188,367) | (156,416) | (92,248) | (64,418) |
| Cash paid relating to other operating activities | 7 (39d) | (57,525) | (53,467) | (54,287) | (46,255) |
| SUB-TOTAL OF CASH OUTFLOWS | | (756,184) | (615,876) | (597,713) | (492,447) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 7 (39a) | 210,819 | 205,442 | 101,158 | 117,812 |
| 2. CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Cash received from disposal of investments | | 7,927 | 407 | 1,389 | 296 |
| Consolidation of PetroKazakhstan Inc. | 7 (7a) | 1,542 | -- | -- | -- |
| Deregistration of wholly owned subsidiaries to branches | 6 | -- | -- | 32 | -- |
| Cash received from returns on investments | | 3,425 | 4,092 | 67,561 | 68,417 |
| Net cash received from disposal of fixed assets, oil and gas properties, intangible assets and other long-term assets | | 1,014 | 348 | 425 | 193 |
| SUB-TOTAL OF CASH INFLOWS | | 13,908 | 4,847 | 69,407 | 68,906 |
| Cash paid to acquire fixed assets, oil and gas properties, intangible assets and other long-term assets | | (180,692) | (139,167) | (137,395) | (113,690) |
| Cash paid to acquire investments | | (20,262) | (27,832) | (19,468) | (11,860) |

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| | | | | | |
|---|---|-----------|-----------|-----------|-----------|
| Including: Cash paid to purchase shares of listed subsidiaries | 6 | (149) | (4,095) | (149) | (4,095) |
| SUB-TOTAL OF CASH OUTFLOWS | | (200,954) | (166,999) | (156,863) | (125,550) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (187,046) | (162,152) | (87,456) | (56,644) |

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PETROCHINA COMPANY LIMITED
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE
YEAR ENDED DECEMBER 31, 2007 (CONTINUED)
(All amounts in RMB millions unless otherwise stated)

| ITEMS | NOTES | 2007 THE GROUP | 2006 THE GROUP | 2007 THE COMPANY | 2006 THE COMPANY |
|---|--------|----------------------|----------------------|------------------------|------------------------|
| 3. CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Cash received from capital contributions | | 1,349 | 1,492 | -- | -- |
| Including: Cash received from minority shareholders' capital contributions to subsidiaries | | 1,349 | 1,492 | -- | -- |
| Cash received from borrowings | | 57,492 | 44,378 | 43,308 | 31,064 |
| Cash received from issuance of A shares | 7 (26) | 66,243 | -- | 66,243 | -- |
| Cash received relating to other financing activities | | 427 | 260 | 407 | 148 |
| SUB-TOTAL OF CASH INFLOWS | | 125,511 | 46,130 | 109,958 | 31,212 |
| Cash repayments of borrowings | | (57,098) | (45,925) | (38,782) | (31,343) |
| Cash payments for interest expenses and distribution of dividends or profits | | (74,821) | (75,323) | (69,199) | (71,761) |
| Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders | | (6,150) | (3,033) | -- | -- |
| Cash payments relating to other financing activities | | (470) | (260) | (376) | (61) |
| SUB-TOTAL OF CASH OUTFLOWS | | (132,389) | (121,508) | (108,357) | (103,165) |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | (6,878) | (75,378) | 1,601 | (71,953) |
| 4. EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | 40 | (258) | -- | -- |
| 5. NET INCREASE / (DECREASE) IN CASH | | | | | |

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| | | | | | |
|---|---------|--------|----------|--------|----------|
| AND CASH EQUIVALENTS | | 16,935 | (32,346) | 15,303 | (10,785) |
| | | ----- | ----- | ----- | ----- |
| Add: Cash and cash equivalents at beginning of the year | 7 (39b) | 48,559 | 80,905 | 45,029 | 55,814 |
| | | ----- | ----- | ----- | ----- |
| 6. CASH AND CASH EQUIVALENTS AT END OF THE YEAR | 7 (39c) | 65,494 | 48,559 | 60,332 | 45,029 |
| | | ===== | ===== | ===== | ===== |

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

Chairman and President
Jiang Jiemin

Director
Zhou Jiping

Chief Financial Officer
Zhou Mingchun

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PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
ENDED DECEMBER 31, 2007
(All amounts in RMB millions unless otherwise stated)

| ITEMS | NOTES | SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE CO | | | | |
|--|-------|---|-----------------|------------------|-----------------------|-----------|
| | | SHARE CAPITAL | CAPITAL SURPLUS | SURPLUS RESERVES | UNDISTRIBUTED PROFITS | TRA C DIF |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2005 | | 179,021 | 72,276 | 76,573 | 164,065 | |
| First time adoption of Accounting Standards for Business Enterprises | 14 | -- | (10,313) | -- | (5,095) | |
| Balance at January 1, 2006 | | 179,021 | 61,963 | 76,573 | 158,970 | |
| Changes in the year of 2006 | | -- | (2,166) | 13,355 | 54,285 | |
| Net profit | | -- | -- | -- | 136,229 | |
| Losses recognised directly in equity | | -- | (2,166) | -- | -- | |
| Currency translation differences | | -- | -- | -- | -- | |
| Purchase of minority interest in subsidiaries | 6 | -- | (2,166) | -- | -- | |
| Other | | -- | -- | -- | -- | |
| Sub-total | | -- | (2,166) | -- | 136,229 | |
| Shareholders' contribution and withdrawal | | -- | -- | -- | -- | |
| Capital contribution by shareholders | | -- | -- | -- | -- | |
| Profit distribution | | -- | -- | 13,355 | (81,944) | |

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| | | | | |
|---|---------|--------|--------|----------|
| Appropriation to surplus reserves | -- | -- | 13,355 | (13,355) |
| Distribution to shareholders | -- | -- | -- | (68,589) |
| Balance at December 31, 2006 | 179,021 | 59,797 | 89,928 | 213,255 |
| Balance at January 1, 2007 | 179,021 | 59,797 | 89,928 | 213,255 |
| Changes in the year of 2007 | 4,000 | 62,395 | 12,768 | 57,289 |
| Net profit | -- | -- | -- | 134,574 |
| Gains or losses recognised directly in equity | -- | 152 | -- | -- |
| Currency translation differences | -- | -- | -- | -- |
| Purchase of minority interest in subsidiaries | 6 | (109) | -- | -- |
| Fair value changes of available-for-sale financial assets | -- | 261 | -- | -- |
| Other | -- | -- | -- | -- |
| Sub-total | -- | 152 | -- | 134,574 |
| Shareholders' contribution and withdrawal | 4,000 | 62,243 | -- | -- |

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PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
ENDED DECEMBER 31, 2007 (CONTINUED)
(All amounts in RMB millions unless otherwise stated)

| ITEMS | NOTES | SHAREHOLDERS' EQUITY ATTRIBUTABLE TO THE COMPANY | | | | |
|---|-------|--|-----------------|------------------|-----------------------|---|
| | | SHARE CAPITAL | CAPITAL SURPLUS | SURPLUS RESERVES | UNDISTRIBUTED PROFITS | C |
| Capital contribution by shareholders - issuance of A shares | 7(26) | 4,000 | 62,243 | -- | -- | |
| Capital contribution by shareholders - other | | -- | -- | -- | -- | |
| Consolidation of PetroKazakhstan Inc | 7(7a) | -- | -- | -- | -- | |
| Profit distribution | | -- | -- | 12,768 | (77,285) | |
| Appropriation to surplus reserves | | -- | -- | 12,768 | (12,768) | |
| Distribution to shareholders | | -- | -- | -- | (64,517) | |
| Balance at December 31, 2007 | | 183,021 | 122,192 | 102,696 | 270,544 | (|

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

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

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PETROCHINA COMPANY LIMITED
 COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE
 YEAR ENDED DECEMBER 31, 2007
 (All amounts in RMB millions unless otherwise stated)

| ITEMS | NOTES | SHARE CAPITAL | CAPITAL SURPLUS | SURPLUS RESERVES | UNDIST PRO |
|--|--------|------------------|--------------------|---------------------|---------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2005 | | 179,021 | 72,276 | 65,473 | 175 |
| First time adoption of Accounting Standards for Business Enterprises | | -- | (8,928) | -- | (47 |
| Balance at January 1, 2006 | | 179,021 | 63,348 | 65,473 | 127 |
| Changes in the year of 2006 | | -- | -- | 13,355 | 49 |
| Net profit | | -- | -- | -- | 131 |
| Profit distribution | | -- | -- | 13,355 | (81 |
| Appropriation to surplus reserves | | -- | -- | 13,355 | (13 |
| Distribution to shareholders | | -- | -- | -- | (68 |
| Balance at December 31, 2006 | | 179,021 | 63,348 | 78,828 | 177 |
| Balance at January 1, 2007 | | 179,021 | 63,348 | 78,828 | 177 |
| Changes in the year of 2007 | | 4,000 | 62,500 | 12,768 | 50 |
| Net profit | | -- | -- | -- | 127 |
| Gains recognised directly in equity | | -- | 257 | -- | |
| Currency translation differences related to investment in associates and jointly controlled entities | | -- | (3) | -- | |
| Fair value changes of available-for-sale financial assets | | -- | 260 | -- | |
| Sub-total | | -- | 257 | -- | 127 |
| Shareholders' contribution and withdrawal | 7 (26) | 4,000 | 62,243 | -- | |

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| | | | | |
|--|---------|---------|--------|-------|
| Capital contribution by shareholders - issuance of A shares | 4,000 | 62,243 | -- | |
| | ----- | ----- | ----- | ----- |
| Profit distribution | -- | -- | 12,768 | (77) |
| | ----- | ----- | ----- | ----- |
| Appropriation to surplus reserves | -- | -- | 12,768 | (12) |
| Distribution to shareholders | -- | -- | -- | (64) |
| | ----- | ----- | ----- | ----- |
| Balance at December 31, 2007 | 183,021 | 125,848 | 91,596 | 228 |
| | ===== | ===== | ===== | ===== |

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

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

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PETROCHINA COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

1 COMPANY BACKGROUND

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

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

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

2 BASIS OF PREPARATION

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

- Equity investment differences arising from a business combination under common control and other credit equity investment differences of long-term equity investments under equity method were written off.
- Goodwill arising from a business combination under common control was written off.
- Recognition of deferred tax assets and liabilities related to the temporary differences between the carrying amount of assets or liabilities and their tax bases, and the deductible loss and tax credits that can be carried forward.
- Long-term equity investments in subsidiaries are retrospectively adjusted in the company's separate financial statements as if the subsidiaries have been accounted for at cost from the initial recognition.

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

3 STATEMENT OF COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

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

4 PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(1) ACCOUNTING PERIOD

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

(2) RECORDING CURRENCY

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

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RMB.

(3) FOREIGN CURRENCY TRANSLATION

(a) Foreign currency transactions

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(b) Translation of financial statements represented in foreign currency

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

(4) CASH AND CASH EQUIVALENTS

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

(5) FINANCIAL ASSETS

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

(a) Loans and receivables

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

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(b) Available-for-sale financial assets

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

(c) Recognition and measurement

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

Available-for-sale financial assets are subsequently measured at fair value. The investments in equity instruments that do not have a quoted market price in an active market

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

and whose fair value cannot be reliably measured are carried at cost. Loans and receivables are stated at amortised costs using the effective interest method.

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

(d) Impairment of financial assets

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

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

When there is significant or nontemporary decline in the fair value of an available-for-sale financial asset, the cumulative losses that have been recognised in equity as a result of the decline in the fair value shall be removed from equity and recognised as impairment losses in the income statement.

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(6) INVENTORIES

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

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

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

The Group adopts perpetual inventory system.

(7) LONG-TERM EQUITY INVESTMENTS

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

(a) Subsidiaries

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

Long-term equity investments accounted for at cost are measured at the initial investment cost. The cash dividends or profit distributions declared by the investees are recognised as investment income in current period which are

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limited to the accumulated profits of the investee arising after the investment was made. The cash dividends or profit distributions received in excess of such amounts are recorded as a recovery of investment.

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

(b) Jointly controlled entities and associates

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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

(c) Impairment losses of long-term equity investment

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

(8) FIXED ASSETS

Fixed assets comprise buildings, equipment and machinery, motor vehicles

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

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

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

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

| | ESTIMATED USEFUL LIVES | ESTIMATED RESIDUAL VALUE RATIO% | ANNUAL DEPRECIATION RATES% |
|-------------------------|------------------------|------------------------------------|-------------------------------|
| | ----- | ----- | ----- |
| Buildings | 8 to 40 years | 5 | 2.4 to 11.9 |
| Equipment and Machinery | 4 to 30 years | 3 to 5 | 3.2 to 24.3 |
| Motor Vehicles | 7 to 14 years | 5 | 6.8 to 13.6 |
| Other | 5 to 12 years | 5 | 7.9 to 19.0 |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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

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

(9) OIL AND GAS PROPERTIES

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

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

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

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

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Future oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses. Payments on such licenses are made annually and are expensed as incurred.

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

| | ESTIMATED USEFUL LIVES | ESTIMATED RESIDUAL VALUE RATIO% | ANNUAL DEPLETION RATES% |
|------------------------|---------------------------|------------------------------------|----------------------------|
| Oil and gas properties | 6 to 14 years | -- | 7.1 to 16.7 |

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(10) CONSTRUCTION IN PROGRESS

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

Oil and gas exploration costs include drilling exploration costs and the

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

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

(11) INTANGIBLE ASSETS

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

buildings between the land use rights and the buildings on a reasonable basis, the entire amount is accounted for as fixed assets.

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

The carrying amount of intangible assets is written down to its recoverable

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

(12) RESEARCH AND DEVELOPMENT

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

(13) LONG-TERM PREPAID EXPENSES

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

(14) IMPAIRMENT OF ASSETS

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

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(15) BORROWING COSTS

Borrowing costs incurred that are directly attributable to the acquisition and construction of fixed assets, which require a substantial period of time for acquisition and construction activities to get ready for their intended use, are capitalised as part of the cost of the assets when capital expenditures and

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borrowing costs have already incurred and the activities of acquisition and construction necessary to prepare the assets to be ready for their intended use have commenced. The capitalisation of borrowing costs ceases when the assets are ready for their intended use. Borrowing costs incurred thereafter are expensed. Capitalisation of borrowing costs should be suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally, and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

(16) BORROWINGS

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

(17) EMPLOYEE COMPENSATION

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

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

Compensation under the share appreciation right is measured based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet date to its fair value until settlement with all the changes in liabilities recorded in the income statement.

(18) PROVISIONS

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related oil and gas properties of an amount equivalent to the provision is also created. This is

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subsequently depleted as part of the costs of the oil and gas properties. Interest expenses from the assets retirement obligations for each period are recognised with the effective interest method during the useful life of the related oil and gas properties.

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

(19) DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences (temporary differences) arising between the tax bases of assets and liabilities and their carrying amounts. The deductible losses, which can be utilised against the future taxable profit in accordance with tax law, are regarded as temporary differences and a deferred tax asset is recognised accordingly. The deferred tax assets and deferred tax liabilities are not accounted for the temporary differences resulting from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit (or deductible loss). Deferred tax assets and deferred tax liabilities are determined using tax rates that are expected to apply to the period when the related deferred tax asset is realised or the deferred tax liability is settled.

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

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

(20) REVENUE RECOGNITION

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

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

(a) Sales of goods

Revenue from sales of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, and retains neither continuing managerial involvement nor effective control over the goods sold, and it is probable that the

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related revenue and cost can be measured reliably.

(b) Rendering of services

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

(c) Transfer of the assets use rights

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

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

(21) LEASES

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

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

(22) DIVIDEND DISTRIBUTION

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

(23) BUSINESS COMBINATION

(a) Business combination under common control

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

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

(b) Business combination not under common control

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

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

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(24) BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

(25) SEGMENT REPORTING

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

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

(26) CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

- (a) Estimation of oil and natural gas reserves

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Oil and natural gas reserves are key factors in the Group's investment decision-making process. They are also an important element in testing for impairment. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and natural gas reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

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

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

(c) Estimation of assets retirement obligations

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

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

5 TAXATION

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

| TYPES OF TAXES ----- | TAX RATE ----- | TAX BASIS ----- |
|--------------------------------|-------------------|---|
| Value-Added Tax (the "VAT") | 13% or 17% | Based on taxable value added amount. Tax pa is calculated using the taxable sales amount |

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| | | |
|---------------------------------------|---------------------|---|
| | | by the applicable tax rate less current per |
| Resource Tax | Based on quantities | From July 1, 2005, the rate for crude oil is 14 yuan per ton to RMB 14 -30 yuan per ton, the rate for natural gas increased from RMB 2-15 yuan per thousand of cubic meter to 7-15 yuan per thousand of cubic meter. |
| Business Tax | 3% | Based on income generated from transportation of natural gas. |
| Consumption Tax | Based on quantities | RMB 0.2 yuan per litre for unleaded gasoline, RMB 0.1 yuan per litre for leaded gasoline, RMB 0.1 yuan per litre for lubricant at RMB 0.2 yuan per litre and fuel oil at RMB 0.1 yuan per litre, and temporarily 30% of the tax is payable by the consumer. |
| Corporate Income Tax | 33% | Based on taxable income. |
| Mineral Resources Compensation Fee | 1% | Based on the revenue from sales of crude oil and natural gas. |
| Crude Oil Special Levy | 20% to 40% | Based on the sales of domestic crude oil at a specific level. |
| City Maintenance and Construction Tax | 1%,5% or 7% | Based on the actual paid business tax, VAT and consumption tax. |

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

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

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

In accordance with the MOF and the SAT Cai Shui [2004] No. 153 "Notice of the MOF and the SAT on Corporate Income Tax Preferential Policies for Reviving the Northeast old

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Industry Base of China" and Cai Shui [2005] No. 17 "Notice of the MOF and the SAT on Basis of Asset Depreciation and Amortisation in the Northeast Old

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Industry Base of China", some branches and subsidiaries of the Company can shorten depreciation and amortisation periods of fixed assets and intangible assets for no more than 40% based on the remained deprecation and amortisation periods according to current regulations.

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

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

6 PRINCIPAL SUBSIDIARIES

| COMPANY NAME | COUNTRY OF INCORPORATION | REGISTERED CAPITAL | PRINCIPAL ACTIVITIES | ATTRIBUTABLE EQUITY INTEREST % | | ATTRIBUTABLE VOTING |
|--|--------------------------|-------------------------|--|--------------------------------|----------|---------------------|
| | | | | DIRECT | INDIRECT | DIRECT |
| Daqing Oilfield Company Limited | PRC | 47,500 | Exploration, production and sale of crude oil and natural gas; production and sale of refined products | 100.00 | -- | 100.00 |
| CNPC Exploration and Development Company Limited | PRC | 100 | Exploration and production and sale of crude oil and natural gas outside of the PRC | 50.00 | -- | 57.14 |
| Daqing Yu Shu Lin Oilfield Company Limited | PRC | 1,272 | Exploration, production and sale of crude oil and natural gas | -- | 88.16 | -- |
| PetroKazakhstan Inc. ("PKZ") | Canada | US Dollar 2,465 million | Exploration, production and sale of crude oil and natural gas outside of the PRC | -- | 67.00 | -- |

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| ENTITY NAME | NUMBER OF OUTSTANDING SHARES | PURCHASE PRICE PER SHARE | NUMBER OF SHARES ACQUIRED | TOTAL CASH CONSIDERATION PAID | PERCENTAGE OF SHAREHOLDINGS AFTER THE ACQUISITION % |
|--|---|---|---|---|--|
| Jinzhou PetroChemical Company Limited ("JCPL") | 150,000,000 A shares | RMB 4.25 yuan per A share | 150,000,000 A shares as of June 30, 2007 | RMB 638 as of December 31, 2007 | 100.00 |
| Jilin Chemical Industrial Company Limited ("JCIC") | 200,000,000 A shares | RMB 5.25 yuan per A share | 200,000,000 A shares as of December 31, 2007 | RMB 3,862 as of December 31, 2007 | 100.00 |
| | 964,778,000 H shares (including American Depositary Shares) ("ADS") | Hong Kong Dollar ("HKD") 2.80 per H share | 964,778,000 H shares (including ADS) as of December 31, 2007 | | |
| Liaohu Oilfield Company Limited ("LJOCL") | 200,000,000 A shares | RMB 8.80 yuan per A share | 200,000,000 A shares as of June 30, 2007 | RMB 1,763 as of December 31, 2007 | 100.00 |

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

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PETROCHINA COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

7 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) CASH AT BANK AND ON HAND

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

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

| | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
|------------------------------|---------------------|------------------|-------------------|
| | ----- | ----- | ----- |
| United States Dollar ("USD") | 1,678 | 7.3046 | 12,257 |
| Other | | | 81 |
| | | | ----- |
| | | | 12,338 |
| | | | ===== |

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

| | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
|--|---------------------|------------------|-------------------|
| | ----- | ----- | ----- |

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| | | | |
|-------|-------|--------|-------|
| USD | 1,164 | 7.8087 | 9,089 |
| HKD | 17 | 1.0047 | 17 |
| Other | | | 292 |
| | | | ----- |
| | | | 9,398 |
| | | | ===== |

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

(2) NOTES RECEIVABLE

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

As at December 31, 2007, notes receivable of RMB 300 is impawned for the Group's short-term borrowings of RMB 300 (2006: Nil) (Note 7 (14)). All notes receivable of the Group other than the above-mentioned notes receivable are unsecured, and all notes receivable of the Group are due within one year.

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(3) ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

(a) Accounts receivable

| | GROUP | | | |
|---|----------------------|----------|-----------|---------|
| | DECEMBER 31, 2006 | Addition | Reduction | |
| Accounts receivable | 11,745 | | | 21,298 |
| Less: Specific provision for bad debts | (3,257) | (49) | 427 | (2,879) |
| | ----- | --- | --- | ----- |
| | 8,488 | | | 18,419 |
| | ===== | | | ===== |

| | COMPANY | | | |
|------------------------------|----------------------|----------|-----------|-------|
| | DECEMBER 31, 2006 | Addition | Reduction | |
| Accounts receivable | 3,189 | | | 4,785 |
| Less: Specific provision for | | | | |

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| | | | | |
|-----------|---------|-------|-----|---------|
| bad debts | (2,606) | (433) | 385 | (2,654) |
| | ----- | ----- | --- | ----- |
| | 583 | | | 2,131 |
| | ===== | | | ===== |

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

| GROUP | | | | | | |
|-------------------|--------|-------------------------------------|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| DECEMBER 31, 2007 | | | | DECEMBER 31, 2006 | | |
| | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Within 1 year | 18,260 | 86 | (1) | 8,299 | 71 | -- |
| 1 to 2 years | 39 | -- | -- | 33 | -- | (3) |
| 2 to 3 years | 32 | -- | (1) | 59 | -- | (36) |
| Over 3 years | 2,967 | 14 | (2,877) | 3,354 | 29 | (3,218) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 21,298 | 100 | (2,879) | 11,745 | 100 | (3,257) |
| | ===== | ==== | ===== | ===== | ==== | ===== |

| COMPANY | | | | | | |
|-------------------|--------|-------------------------------------|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| DECEMBER 31, 2007 | | | | DECEMBER 31, 2006 | | |
| | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Within 1 year | 2,025 | 42 | (1) | 441 | 14 | -- |
| 1 to 2 years | 22 | -- | -- | 32 | 1 | (17) |
| 2 to 3 years | 31 | 1 | -- | 37 | 1 | (32) |
| Over 3 years | 2,707 | 57 | (2,653) | 2,679 | 84 | (2,557) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 4,785 | 100 | (2,654) | 3,189 | 100 | (2,606) |
| | ===== | ==== | ===== | ===== | ==== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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| | GROUP | |
|---|-------------------|-------------------|
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
| Receivable from CNPC and its subsidiaries | 3,796 ===== | 599 === |

| | COMPANY | |
|---|-------------------|-------------------|
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
| Receivable from CNPC and its subsidiaries | 415 === | 468 === |

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

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

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

| | DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
|-----|-------------------|---------------|----------------------------------|-------------------|---------------|----------------------------------|
| | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
| USD | 685 | 7.3046 | 5,005 ----- 5,005 ===== | 201 | 7.8087 | 1,570 ----- 1,570 ===== |

(b) Other receivables

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| | GROUP | | | GROUP | | |
|---------------|-------------------|-------------------------------------|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| | DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
| | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS |
| Within 1 year | 12,751 | 65 | -- | 9,068 | 53 | (5) |
| 1 to 2 years | 2,316 | 12 | (5) | 391 | 2 | (4) |
| 2 to 3 years | 111 | 1 | (5) | 103 | 1 | (15) |
| Over 3 years | 4,317 | 22 | (4,041) | 7,459 | 44 | (6,482) |
| | 19,495 | 100 | (4,051) | 17,021 | 100 | (6,506) |
| | ===== | === | ===== | ===== | === | ===== |

| | COMPANY | | | COMPANY | | |
|---------------|-------------------|-------------------------------------|-------------------------------|-------------------|-------------------------------------|-------------------------------|
| | DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
| | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS | AMOUNT | PERCENTAGE OF TOTAL BALANCE % | PROVISION FOR BAD DEBTS |
| Within 1 year | 15,962 | 61 | -- | 11,714 | 69 | (5) |
| 1 to 2 years | 7,939 | 30 | (4) | 258 | 2 | (3) |
| 2 to 3 years | 46 | -- | (5) | 49 | -- | (14) |

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| | | | | | | |
|--------------|--------|-----|---------|--------|-----|---------|
| Over 3 years | 2,319 | 9 | (2,084) | 4,842 | 29 | (3,938) |
| | ----- | --- | ----- | ----- | --- | ----- |
| | 26,266 | 100 | (2,093) | 16,863 | 100 | (3,960) |
| | ===== | === | ===== | ===== | === | ===== |

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

| | GROUP | |
|---|-------------------------------------|-------------------------------------|
| | ----- DECEMBER 31, 2007 ----- | ----- DECEMBER 31, 2006 ----- |
| Receivable from CNPC and its subsidiaries | 2,351 ===== | 2,797 ===== |

| | COMPANY | |
|---|-------------------------------------|-------------------------------------|
| | ----- DECEMBER 31, 2007 ----- | ----- DECEMBER 31, 2006 ----- |
| Receivable from CNPC and its subsidiaries | 141 === | 2,713 ===== |

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| | DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
|-------|---------------------------------------|------------------------------------|-------------------------------------|---------------------------------------|------------------------------------|-------------------------------------|
| | ----- FOREIGN CURRENCY ----- | ----- EXCHANGE RATE ----- | ----- RMB EQUIVALENT ----- | ----- FOREIGN CURRENCY ----- | ----- EXCHANGE RATE ----- | ----- RMB EQUIVALENT ----- |
| USD | 53 | 7.3046 | 386 | 67 | 7.8087 | 522 |
| Tenge | 16,425 | 0.0607 | 997 | 390 | 0.0615 | 24 |
| | | | ----- 1,383 ===== | | | ----- 546 ===== |

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(4) ADVANCES TO SUPPLIERS

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

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

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

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|--|-------------------|-------------------|
| | ----- | ----- |
| Advances to suppliers from CNPC and its subsidiaries | 7,984 | 4,619 |
| | ===== | ===== |

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

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

| | DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
|-------|---------------------|------------------|-------------------|---------------------|------------------|-------------------|
| | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| USD | 23 | 7.3046 | 171 | 85 | 7.8087 | 667 |
| Tenge | 13,690 | 0.0607 | 831 | 11,984 | 0.0615 | 737 |
| | | | ----- | | | ----- |
| | | | 1,002 | | | 1,404 |
| | | | ===== | | | ===== |

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(5) INVENTORIES

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

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

(6) AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

(7) LONG-TERM EQUITY INVESTMENTS

| GROUP | | | | |
|-------|----------------------|----------|-----------|----------------------|
| | DECEMBER 31, 2006 | ADDITION | REDUCTION | DECEMBER 31, 2007 |
| | ----- | ----- | ----- | ----- |

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| | | | | |
|--|--------|--------|----------|--------|
| Associates and jointly controlled entities (a) | 30,511 | 21,954 | (29,624) | 22,841 |
| | ----- | ----- | ----- | ----- |
| Less: Provision for impairment (b) | (150) | (33) | 28 | (155) |
| | ----- | ----- | ----- | ----- |
| | 30,361 | 21,921 | (29,596) | 22,686 |
| | ----- | ----- | ----- | ----- |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

| | COMPANY | | | |
|--|----------------------|----------|-----------|----------------------|
| | DECEMBER 31, 2006 | ADDITION | REDUCTION | DECEMBER 31, 2007 |
| | ----- | ----- | ----- | ----- |
| Subsidiaries (c) | 110,136 | 4,981 | (15,134) | 99,983 |
| Associates and jointly controlled entities | 5,636 | 959 | (1,732) | 4,863 |
| | ----- | ----- | ----- | ----- |
| Less: Provision for impairment | (148) | (28) | 21 | (155) |
| | ----- | ----- | ----- | ----- |
| | 115,624 | 5,912 | (16,845) | 104,691 |
| | ===== | ===== | ===== | ===== |

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

(a) Investments in principal associates and jointly controlled entities

| | COUNTRY OF INCORPORATION | PRINCIPAL ACTIVITIES | REGISTERED CAPITAL | EQUITY INTEREST % | VOTING RIGHTS % | AS OF D 31, ----- TOTAL ASSETS LI |
|---|-----------------------------|---|-------------------------------|-------------------------|-----------------------|---|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Dalian West Pacific Petrochemical Co., Ltd. | PRC | Production and sale of petroleum and petrochemical products | US Dollar 258 million | 28.44 | 28.44 | 14,223 |
| China Marine Bunker (PetroChina) Co., Ltd. | PRC | Oil import and export trade and transportation, Ltd. sale and storage | 1,000 | 50.00 | 50.00 | 6,254 |
| PKZ (i) | Canada | Exploration, production and sale of crude oil and | US Dollar 2,465 million | 67.00 | 67.00 | -- |

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natural gas outside
of the PRC

Investments in associates and jointly controlled entities are listed below.

| | INITIAL INVESTMENT COST | DECEMBER 31, 2006 | ADDITION | CONSOLIDATION OF PKZ | REDUCTION | SHARE OF PROFIT OF INVESTEES UNDER EQUITY METHOD | CASH DIVIDEND DECLARED |
|--|-------------------------------|----------------------|----------|-------------------------|-----------|---|------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Dalian West Pacific Petrochemical Co., Ltd. | 566 | 802 | -- | -- | -- | 174 | (28) |
| China marine Bunker (PetroChina) Co., Ltd. | 740 | 994 | -- | -- | (19) | 137 | (50) |
| PKZ(i) | 21,359 | 21,402 | -- | -- | (8,208) | 4,624 | -- |
| Other(ii) | 7,313 | 3,851 | 11,820 | (1,280) | 1,348 | (1,279) | (423) |
| | | ----- | ----- | ----- | ----- | ----- | ----- |
| | | 30,511 | 3,851 | 11,820 | (9,507) | 6,283 | (1,357) |
| | | ===== | ===== | ===== | ===== | ===== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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

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

| | |
|----------------|-------|
| Current assets | 6,587 |
|----------------|-------|

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| | |
|-------------------------|---------|
| Non-current assets | 20,630 |
| Current liabilities | (1,732) |
| Non-current liabilities | (762) |
| | ----- |
| | 24,723 |
| | ===== |

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

(b) Provision for impairment

| | DECEMBER 31, 2006 | ADDITION | REDUCTION | DECEMBER 31, 2007 |
|--|----------------------|----------|-----------|----------------------|
| | ----- | ----- | ----- | ----- |
| Associates and jointly controlled entities | | | | |
| PetroChina Shouqi Sales Company Limited | (60) | -- | -- | (60) |
| PetroChina Beiqi Sales Company Limited | (49) | -- | -- | (49) |
| Other | (41) | (33) | 28 | (46) |
| | ---- | --- | --- | ---- |
| | (150) | (33) | 28 | (155) |
| | ==== | === | === | ==== |

(c) Subsidiaries

Principal subsidiaries

| | AS OF DECEMBER 31, 2007 | | FOR THE YEAR ENDED DECEMBER 31, 2007 | |
|--|----------------------------|----------------------|---|---------------|
| | TOTAL ASSETS | TOTAL LIABILITIES | REVENUE | NET PROFIT |
| | ----- | ----- | ----- | ----- |
| Daqing Oilfield Company Limited | 142,211 | 28,228 | 203,008 | 61,888 |
| CNPC Exploration and Development Company Limited | 69,161 | 24,698 | 27,331 | 12,396 |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

Investment in subsidiaries:

DISPOSAL

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| | INITIAL INVESTMENT COST | ADDITIONAL INVESTMENT | DECEMBER 31, 2006 | ADDITIONAL INVESTMENT | OR DEDUCTION OF CAPITAL | TRANSFERR TO BRANC |
|--|-------------------------------|--------------------------|----------------------|--------------------------|-------------------------------|-----------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Daqing Oilfield Company Limited | 66,720 | -- | 66,720 | -- | -- | -- |
| CNPC Exploration and Development Company Limited | 13,924 | -- | 13,924 | -- | -- | -- |
| Other | | | 29,492 | 4,981 | (442) | (14,692) |
| Total | | | 110,136 | 4,981 | (442) | (14,692) |
| | | | ===== | ===== | ===== | ===== |

(8) FIXED ASSETS

| | BUILDINGS | EQUIPMENT AND MACHINERY | MOTOR VEHICLES | OTHER | TOTAL |
|--|-----------|----------------------------|-------------------|---------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| COST | | | | | |
| On December 31, 2006 | 81,880 | 308,902 | 12,431 | 7,561 | 410,774 |
| Transferred from construction in progress | 8,778 | 25,916 | -- | 885 | 35,579 |
| Consolidation of PKZ | 184 | 247 | 170 | 136 | 737 |
| Other addition | 2,928 | 2,296 | 3,237 | 293 | 8,754 |
| Reduction | (1,480) | (2,686) | (493) | (255) | (4,914) |
| Currency translation differences | (50) | (124) | (9) | (20) | (203) |
| On December 31, 2007 | 92,240 | 334,551 | 15,336 | 8,600 | 450,727 |
| ACCUMULATED DEPRECIATION | | | | | |
| On December 31, 2006 | (18,900) | (140,179) | (6,868) | (3,668) | (169,615) |
| Charge for the year | (4,891) | (19,951) | (1,248) | (604) | (26,694) |
| Reduction | 1,322 | 1,330 | 372 | 101 | 3,125 |
| Currency translation differences | 8 | 26 | 6 | 14 | 54 |
| On December 31, 2007 | (22,461) | (158,774) | (7,738) | (4,157) | (193,130) |
| PROVISION FOR IMPAIRMENT | | | | | |
| On December 31, 2006 | (2,138) | (7,422) | (5) | (4) | (9,569) |
| Addition | (136) | (157) | (3) | -- | (296) |
| Reduction | 52 | 18 | -- | 1 | 71 |
| On December 31, 2007 | (2,222) | (7,561) | (8) | (3) | (9,794) |
| NET BOOK VALUE | | | | | |
| On December 31, 2007 | 67,557 | 168,216 | 7,590 | 4,440 | 247,803 |
| On December 31, 2006 | 60,842 | 161,301 | 5,558 | 3,889 | 231,590 |
| | ===== | ===== | ===== | ===== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

As at December 31, 2007, the Group had no significant fixed assets which were temporarily idle. As at December 31, 2007, the cost of fixed assets fully depreciated but still in use include: buildings of RMB 3,912, equipment and machinery of RMB 47,570, motor and vehicles of RMB 2,307 and other of RMB 2,264, and amounted to RMB 56,053 intotal.

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

| | DECEMBER 31, 2006 | ADDITION | REDUCTION | DECEMBER 31, 2007 |
|-------------------------------------|----------------------|----------|-----------|----------------------|
| | ----- | ----- | ----- | ----- |
| Fixed assets under operating leases | | | | |
| Cost | 563 | 417 | (797) | 183 |
| Accumulated depreciation | (272) | (168) | 375 | (65) |
| | --- | --- | --- | --- |
| Net book value | 291 | 249 | (422) | 118 |
| | === | === | === | === |

(9) OIL AND GAS PROPERTIES

| | DECEMBER 31, 2006 | ADDITION | CONSOLIDATION OF PKZ | REDUCTION | CURRENCY TRANSLATION DIFFERENCES | DECEMBER 31, 2007 |
|--|----------------------|----------|-------------------------|-----------|--|----------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| COST | | | | | | |
| Mineral interests in unproved properties | -- | 2,469 | -- | -- | -- | 2,469 |
| Mineral interests in proved properties | 2,801 | -- | -- | (2,801) | -- | -- |
| Wells and related facilities | 573,593 | 92,215 | 8,322 | (5,807) | (920) | 667,403 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 576,394 | 94,684 | 8,322 | (8,608) | (920) | 669,890 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| ACCUMULATED DEPLETION | | | | | | |
| Mineral interests in proved properties | (2,030) | -- | -- | 2,030 | -- | -- |
| Wells and related facilities | (300,633) | (43,876) | -- | 3,727 | 449 | (340,333) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | (302,663) | (43,876) | -- | 5,757 | 449 | (340,333) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| PROVISION FOR IMPAIRMENT | | | | | | |
| Mineral interests in unproved properties | -- | -- | -- | -- | -- | -- |

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| | | | | | | |
|--|---------|--------|-------|---------|-------|---------|
| Mineral interests in proved properties | -- | -- | -- | -- | -- | -- |
| Wells and related facilities | (3,235) | -- | -- | 24 | -- | (3,235) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | (3,235) | -- | -- | 24 | -- | (3,235) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| NET BOOK VALUE | | | | | | |
| Mineral interests in unproved properties | -- | 2,469 | -- | -- | -- | 2,469 |
| Mineral interests in proved properties | 771 | -- | -- | (771) | -- | -- |
| Wells and related facilities | 269,725 | 48,339 | 8,322 | (2,056) | (471) | 323,859 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 270,496 | 50,808 | 8,322 | (2,827) | (471) | 326,328 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

(10) CONSTRUCTION MATERIALS

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

(11) CONSTRUCTION IN PROGRESS

| Project Name | Budget | December 31, 2006 Amount | Addition Amount | Transferred to fixed assets or oil and gas properties | Other reduction (i) | Currency translation difference | December 31 |
|---|--------|--------------------------|-----------------|---|---------------------|---------------------------------|-------------|
| | | | | | | | Amount |
| West-East pipeline | 46,310 | 4,579 | 1,667 | (3,399) | -- | -- | 2,847 |
| Daqing oil and gas transportation facilities and systems | 9,708 | 2,273 | 7,003 | (5,867) | -- | -- | 3,409 |
| Dushanzi Petrochemical 10 million tons / year of Kazakh oil | 6,513 | 1,574 | 3,570 | (101) | -- | -- | 5,043 |
| Dushanzi Petrochemical 1 million tons / year ethylene | 23,846 | 3,704 | 4,549 | (18) | -- | -- | 8,235 |

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| | | | | | | | |
|---|--------|--------|---------|-----------|---------|-----------|---------|
| Dalian Petrochemical 20 million tons / year sulphur crude oil technology transformation | 10,789 | 2,690 | 3,935 | (102) | -- | -- | 6,523 |
| Ranliaoyou Technology reformation | 6,600 | -- | 3,475 | -- | -- | -- | 3,475 |
| Other | | 50,129 | 148,856 | (113,263) | (9,161) | (174) | 76,387 |
| | | ----- | ----- | ----- | ----- | ----- | ----- |
| | | 64,949 | 173,055 | (122,750) | (9,161) | (174) | 105,919 |
| | | ===== | ===== | ===== | ===== | ===== | ===== |
| Less: | | | | | | | |
| | | | | Addition | | Reduction | |
| | | | | ----- | | ----- | |
| Provision for impairment | | (297) | | (5) | | 17 | (285) |
| | | ----- | | ----- | | ----- | ----- |
| | | 64,652 | | | | | 105,634 |
| | | ===== | | ===== | | ===== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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

(12) INTANGIBLE ASSETS

| | COST | DECEMBER 31, 2006 | ADDITION | REDUCTION | AMORTISATION | CURRENCY TRANSLATION DIFFERENCES | DECEMBER 31, 2007 |
|-----------------------------|--------|----------------------|----------|-----------|--------------|--|----------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Land use rights | 16,821 | 12,910 | 2,710 | (213) | (467) | (3) | 14,937 |
| Patents | 2,709 | 1,395 | 239 | -- | (194) | -- | 1,440 |
| Other (i) | 5,700 | 2,552 | 2,217 | (2) | (553) | 6 | 4,220 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | 25,230 | 16,857 | 5,166 | (215) | (1,214) | 3 | 20,597 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Less: | | | | | | | |
| Provision for impairment | | | | | | | |
| Land use rights | | (505) | (27) | 199 | -- | -- | (333) |
| Patents | | (179) | -- | -- | -- | -- | (179) |
| Other (i) | | (46) | (17) | -- | -- | -- | (63) |
| | | ----- | ----- | ----- | ----- | ----- | ----- |
| | | 16,127 | 5,122 | (16) | (1,214) | 3 | 20,022 |
| | | ===== | ===== | ===== | ===== | ===== | ===== |

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

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

(13) LONG-TERM PREPAID EXPENSES

| | DECEMBER 31, 2006 | ADDITION | AMORTISATION | DECEMBER 31, 2007 |
|----------------------------|----------------------|----------|--------------|----------------------|
| | ----- | ----- | ----- | ----- |
| Advance lease payments (i) | 8,284 | 2,093 | (1,371) | 9,006 |
| Other | 2,910 | 856 | (744) | 3,022 |
| | ----- | ----- | ----- | ----- |
| | 11,194 | 2,949 | (2,115) | 12,028 |
| | ===== | ===== | ===== | ===== |

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(14) SHORT-TERM BORROWINGS

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

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

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

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

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

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

(15) NOTES PAYABLE

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

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

(16) ACCOUNTS PAYABLE

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

| | DECEMBER 31, 2007 ----- | DECEMBER 31, 2006 ----- |
|--------------------------------------|----------------------------|----------------------------|
| Payable to CNPC and its subsidiaries | 29,507 ===== | 24,492 ===== |

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| | DECEMBER 31, 2007 ----- | | | DECEMBER 31, 2006 ----- | | |
|-------|----------------------------|------------------|-------------------|----------------------------|------------------|-------------------|
| | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| USD | 111 | 7.3046 | 812 | 20 | 7.8087 | 156 |
| Tenge | 28,171 | 0.0607 | 1,710 | 16,065 | 0.0615 | 988 |
| | | | ----- | | | ----- |
| | | | 2,522 | | | 1,144 |
| | | | ===== | | | ===== |

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(17) ADVANCES FROM CUSTOMERS

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

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|---|-------------------|-------------------|
| Advance received from CNPC and its subsidiaries | 924 === | 648 === |

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

| DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
|---------------------|------------------|-------------------|---------------------|------------------|-------------------|
| FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
| USD | 8 | 7.3046 | 22 | 7.8087 | 169 |
| Tenge | 3,229 | 0.0607 | | | -- |
| | | --- | | | --- |
| | | 256 | | | 169 |
| | | === | | | === |

(18) EMPLOYEE COMPENSATION PAYABLE

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

(19) TAXES PAYABLE

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

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

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

(20) OTHER PAYABLES

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

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|---------------------------------------|-------------------|-------------------|
| | ----- | ----- |
| Payables to CNPC and its subsidiaries | 2,625 | 3,206 |
| | ===== | ===== |

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| | DECEMBER 31, 2007 | | | DECEMBER 31, 2006 | | |
|-------|-------------------|---------------|----------------|-------------------|---------------|----------------|
| | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT | FOREIGN CURRENCY | EXCHANGE RATE | RMB EQUIVALENT |
| USD | 180 | 7.3046 | 1,312 | 126 | 7.8087 | 981 |
| Tenge | 7,562 | 0.0607 | 459 | 5,350 | 0.0615 | 329 |
| | | | ----- | | | ----- |
| | | | 1,771 | | | 1,310 |
| | | | ===== | | | ===== |

(21) PROVISIONS

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

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

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

(22) CURRENT PORTION OF NON-CURRENT LIABILITIES

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

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(a) Long-term borrowings due within one year

| | DECEMBER 31, 2007 | | DECEMBER 31, 2006 | |
|---------------------|----------------------|--------|----------------------|--------|
| | ORIGINAL CURRENCY | RMB | ORIGINAL CURRENCY | RMB |
| Secured borrowing | | | | |
| Pledge - USD | -- | -- | 40 | 313 |
| Guarantee-USD | 8 | 62 | 8 | 62 |
| Unsecured borrowing | | | | |
| Unsecured - RMB | | 7,552 | | 13,802 |
| Unsecured - USD | 515 | 3,761 | 595 | 4,643 |
| Unsecured - Other | 314 | 37 | 569 | 102 |
| | | ----- | | ----- |
| | | 11,412 | | 18,922 |
| | | ===== | | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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

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

(b) Debentures payable due within one year

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

(23) LONG-TERM BORROWINGS

| | DECEMBER 31, 2007 | DECEMBER 31, |
|----------------------|-------------------|--------------|
| | ----- | ----- |
| Secured borrowings | | |
| Pledge | 3,287 | 313 |
| Guarantee | 498 | 594 |
| Unsecured borrowings | 42,932 | 48,416 |
| | ----- | ----- |
| | 46,717 | 49,323 |

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| | | |
|---|----------|----------|
| Less: Long-term borrowings due within one year (Note 7((22a)) | (11,412) | (18,922) |
| | ----- | ----- |
| | 35,305 | 30,401 |
| | ===== | ===== |

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

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

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

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

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

| LENDER | DECEMBER 31, 2007 | CURRENCY | FOREIGN CURRENCY AMOUNT | EXCHANGE RATE | ANNUAL INTEREST RATE % | TERM OF CONTRAC |
|--|----------------------|----------|-------------------------------|------------------|------------------------------|--------------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Industrial and Commercial Bank of China Ltd. | 7,400 | RMB | -- | -- | 5.67-6.80 | September 12, 200 May 17, 2022 |
| China Development Bank | 1,800 | RMB | -- | -- | 3.60-6.80 | May 20, 2008 November 20, 20 |
| CP Finance | 19,932 | RMB | -- | -- | 4.46-5.76 | June 10, 2008 April 22, 2032 |
| CP Finance | 4,500 | USD | 616 | 7.3046 | 4.85-5.20 | November 20, 200 September 21, 20 |
| China Construction Bank Corporation | 2,500 | RMB | -- | -- | 6.16 | April 15, 2008 May 28, 2021 |
| China Construction Bank Corporation | 413 | USD | 57 | 7.3046 | 5.10-8.66 | September 30, 200 June 25, 2010 |
| Bank of China | 20 | RMB | -- | -- | 6.57 | April 22, 2010 |

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| | | | | | | |
|--|--------|-----|-----|---------|-----------|---|
| Bank of China | 2,547 | USD | 349 | 7.3046 | 0.00-7.95 | December 1, 2008 June 30, 2038 |
| Bank of China | 247 | EUR | 23 | 10.6669 | 2.00-2.30 | November 10, 2011 December 31, 2038 |
| Bank of China | 37 | JPY | 578 | 0.0640 | 2.42-4.10 | September 30, 2011 November 20, 2011 |
| Bank of Communications | 1,000 | RMB | -- | -- | 5.18 | March 14, 2008 |
| The World Bank | 498 | USD | 68 | 7.3046 | 5.50 | November 15, 2011 |
| Other bank borrowings | 30 | RMB | -- | -- | 6.89 | October 17, 2011 |
| Other bank borrowings | 2,036 | USD | 279 | 7.3046 | 5.10-7.10 | April 7, 2008 - June 28, 2010 |
| Other bank borrowings | 3,287 | USD | 450 | 7.3046 | 7.50 | July 18, 2012 |
| Other foreign government or company borrowings | 5 | RMB | -- | -- | 6.32 | Not determined |
| Other foreign government or company borrowings | 465 | USD | 64 | 7.3046 | 1.55-5.00 | January 15, 2011 Not determined |
| | ----- | | | | | |
| | 46,717 | | | | | |
| | ===== | | | | | |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| LENDER | DECEMBER 31, 2006 | CURRENCY | FOREIGN CURRENCY AMOUNT | EXCHANGE RATE | ANNUAL INTEREST RATE % | TERM OF CONTRACT |
|--|----------------------|----------|-------------------------------|------------------|------------------------------|--|
| Industrial and Commercial Bank of China Ltd. | 7,190 | RMB | -- | -- | 5.18-6.16 | March 2, 2007 - May 17, 2022 |
| China Development Bank | 3,400 | RMB | -- | -- | 3.60-6.16 | May 20, 2007 - November 20, 2010 |
| CP Finance | 20,912 | RMB | -- | -- | 4.46-5.18 | March 14, 2007 - April 22, 2032 |
| CP Finance | 5,930 | USD | 759 | 7.8087 | 5.12-6.06 | November 20, 2007 September 21, 2020 |
| China Construction Bank Corporation | 2,800 | RMB | -- | -- | 5.51-6.16 | April 15, 2007 - May 28, 2021 |
| China Construction Bank Corporation | 114 | USD | 15 | 7.8087 | 6.70-8.66 | February 8, 2007 - September 30, 2009 |
| Bank of China | 993 | USD | 127 | 7.8087 | 0.00-7.86 | April 15, 2007 - June 30, 2038 |
| Bank of China | 257 | EUR | 25 | 10.2665 | 2.00-2.30 | November 10, 2011 December 31, 2023 |

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| | | | | | | |
|--|--------|-----|-------|---------|------------|---|
| Bank of China | 75 | JPY | 1,139 | 0.0656 | 2.42-5.30 | April 30, 2007 - November 20, 2010 |
| Bank of China | 49 | GBP | 3 | 15.3232 | 2.85 | May 15, 2007 |
| Bank of Communications | 1,000 | RMB | -- | -- | 5.18 | March 14, 2008 |
| The World Bank | 594 | USD | 76 | 7.8087 | 4.72 | November 15, 2014 |
| Other bank borrowings | 5,167 | USD | 662 | 7.8087 | 5.87-10.37 | April 7, 2008 - June 28, 2010 |
| Other bank borrowings | 313 | USD | 40 | 7.8087 | 9.00 | December 27, 2007 |
| Other foreign government or company borrowings | 5 | RMB | -- | -- | 6.32 | Not determined |
| Other foreign government or company borrowings | 524 | USD | 67 | 7.8087 | 1.55 | January 15, 2022 - September 1, 2022 |
| | ----- | | | | | |
| | 49,323 | | | | | |
| | ===== | | | | | |

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

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PETROCHINA COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

(24) DEBENTURES PAYABLE

| DEBENTURES' AME | CURRENCY | DATE OF ISSUE | TERM OF DEBENTURES | ANNUAL INTEREST RATE% | DECEMBER 31, 2006 | ADDITION | REDUCTIONS |
|--|----------|-------------------|--------------------|-----------------------|-------------------|----------|------------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| 98 PetroChina Enterprise debentures | RMB | September 8, 1999 | 8-year | 4.50 | 1,350 | -- | (1,350) |
| 2003 PetroChina Company Limited Corporate debentures | RMB | October 28, 2003 | 10-year | 4.11 | 1,500 | -- | -- |
| 2006 PetroChina Company Limited Corporate debentures | RMB | October 23, 2006 | 5-year | 3.76 | 2,000 | -- | -- |
| Other | | | | | 1,280 | -- | (157) |
| | | | | | ----- | ----- | ----- |
| | | | | | 6,130 | -- | (1,507) |
| | | | | | | === | ===== |
| Less: Debentures Payable due within one year | | | | | (1,485) | ----- | |

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

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

(25) DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets

| | DECEMBER 31, 2007 | | DECEMBER 31, 2006 | |
|----------------------------------|---------------------------|--|---------------------------|--|
| | DEFERRED TAX ASSETS | DEDUCTIBLE TEMPORARY DIFFERENCES | DEFERRED TAX ASSETS | DEDUCTIBLE TEMPORARY DIFFERENCES |
| Provision for assets impairment | 4,934 | 21,288 | 7,133 | 23,799 |
| Asset retirement obligations | 1,517 | 6,128 | 1,093 | 3,570 |
| Wages and welfare | 1,301 | 5,271 | 1,523 | 4,973 |
| Loss that can be carried forward | 95 | 343 | 2,175 | 6,591 |
| Other | 5,024 | 20,149 | 2,467 | 7,550 |
| | ----- | ----- | ----- | ----- |
| | 12,871 | 53,179 | 14,391 | 46,483 |
| | ===== | ===== | ===== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(b) Deferred tax liabilities

| | DECEMBER 31, 2007 | | DECEMBER 31, 2006 | |
|---|-----------------------------|-------------------------------------|-----------------------------|-------------------------------------|
| | DEFERRED TAX LIABILITIES | TAXABLE TEMPORARY DIFFERENCES | DEFERRED TAX LIABILITIES | TAXABLE TEMPORARY DIFFERENCES |
| Depreciation and depletion of fixed assets and oil and gas properties | 11,681 | 45,380 | 12,352 | 37,457 |
| Amortisation of intangible assets | 109 | 435 | 103 | 311 |
| Other | 93 | 375 | 25 | 76 |
| | ----- | ----- | ----- | ----- |
| | 11,883 | 46,190 | 12,480 | 37,844 |

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(26) SHARE CAPITAL

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

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

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

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

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

Pursuant to the approval of CSRC Zheng Jian Guo He Zi [2005] No.23 "Reply regarding the approval of PetroChina Company Limited issuance of additional foreign capital stock", the

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

Company issued 3,196,801,818 new H shares with a par value of RMB 1.00 yuan per share on September 15, 2005. CNPC also converted 319,680,182 state-owned shares it held into H shares and sold them concurrently with PetroChina's issuance of new H shares.

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

(27) CAPITAL SURPLUS

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

(28) SURPLUS RESERVES

| | DECEMBER 31, 2006 | ADDITION | REDUCTION | DECEMBER 31, 2007 |
|--------------------------------|----------------------|----------|-----------|----------------------|
| | ----- | ----- | ----- | ----- |
| Statutory Surplus Reserves | 89,888 | 12,768 | -- | 102,656 |
| Discretionary Surplus Reserves | 40 | -- | -- | 40 |
| | ----- | ----- | ----- | ----- |
| | 89,928 | 12,768 | -- | 102,696 |
| | ===== | ===== | ===== | ===== |

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(29) UNDISTRIBUTED PROFITS

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

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

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

At the meeting on August 23, 2007, the Board of Directors proposed interim dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.202806 yuan per share amounting to a total of RMB 36,307, as authorised by shareholders in the Annual General Meeting at May 26, 2006.

(30) MINORITY INTEREST

Minority interest attributable to minority shareholders of subsidiaries

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

(31) OPERATING INCOME AND COST OF SALES

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

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

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

(a) Income from and cost of principal operations

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

| | COMPANY | | | |
|--|---------|-------|--------|-------|
| | 2007 | | 2006 | |
| | ----- | ----- | ----- | ----- |
| | INCOME | COST | INCOME | COST |
| | ----- | ----- | ----- | ----- |

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(b) Income from and cost of other operations

| | GROUP | | | |
|-------------------|--------|--------|--------|--------|
| | 2007 | | 2006 | |
| | INCOME | COST | INCOME | COST |
| | ----- | ----- | ----- | ----- |
| Sale of materials | 10,129 | 10,059 | 8,671 | 8,560 |
| Other | 15,792 | 15,032 | 14,604 | 14,660 |
| Total | 25,921 | 25,091 | 23,275 | 23,220 |
| | ===== | ===== | ===== | ===== |

| | COMPANY | | | |
|-------------------|---------|--------|--------|--------|
| | 2007 | | 2006 | |
| | INCOME | COST | INCOME | COST |
| | ----- | ----- | ----- | ----- |
| Sale of materials | 5,342 | 5,291 | 3,508 | 3,442 |
| Other | 11,082 | 10,889 | 10,508 | 11,083 |
| Total | 16,424 | 16,180 | 14,016 | 14,525 |
| | ===== | ===== | ===== | ===== |

(32) TAX AND LEVIES ON OPERATIONS

| | 2007 | 2006 |
|--------------|-------|-------|
| | ----- | ----- |
| Business tax | 864 | 562 |

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

(33) FINANCE EXPENSES

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(34) ASSET IMPAIRMENT LOSSES

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

(35) INVESTMENT INCOME

| | |
|-------|------|
| GROUP | |
| ----- | |
| 2007 | 2006 |

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

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

(36) NON-OPERATING INCOME AND EXPENSES

(a) Non-operating income

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

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(b) Non-operating expenses

| | | |
|--|-------|-------|
| | 2007 | 2006 |
| | ----- | ----- |

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

(37) TAXATION

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

The reconciliation from profit before taxation presented in the financial statements to the income taxation expenses is as follow:

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

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

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(38) EARNINGS PER SHARE

Basic and diluted earnings per share

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

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

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

(39) NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

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

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

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

| | 2007 | 2006 |
|---|----------|----------|
| | ----- | ----- |
| Cash at end of the year | 65,494 | 48,559 |
| Less: Cash at beginning of the year | (48,559) | (80,905) |
| Add: Cash equivalents at end of the year | -- | -- |
| Less: Cash equivalents at beginning of the year | -- | -- |

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| | | |
|--|--------------------------|----------------------------|
| Net increase/(decrease) in cash and cash equivalents | ----- 16,935 ===== | ----- (32,346) ===== |
|--|--------------------------|----------------------------|

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PETROCHINA COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

(c) Cash and cash equivalents

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

(d) Cash paid relating to other operating activities

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

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

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PETROCHINA COMPANY LIMITED NOTES TO THE FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

8. SEGMENT REPORTING

(1) PRINCIPAL REPORTING FORMAT - BUSINESS SEGMENTS

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

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| | EXPLORATION AND PRODUCTION | REFINING AND MARKETING | CHEMICALS AND MARKETING | NATURAL GAS AND PIPELINE | O |
|--|----------------------------------|------------------------------|-------------------------------|--------------------------------|----|
| Revenue (including Intersegment revenue) | 468,175 | 670,844 | 102,718 | 50,066 | |
| Less: Intersegment revenue | (376,451) | (63,766) | (11,009) | (6,610) | |
| Revenue from external customers | 91,724 | 607,078 | 91,709 | 43,456 | |
| Segment expenses (i) | (255,406) | (327,899) | (40,285) | (14,574) | |
| Segment result | 197,888 | (21,568) | 6,714 | 12,142 | |
| Unallocated expenses | | | | | |
| Operating profit | | | | | |
| Segment assets | 489,971 | 279,726 | 95,969 | 80,430 | 81 |
| Deferred tax assets | | | | | |
| Elimination of intersegment balances | | | | | |
| Total assets | | | | | |
| Segment liabilities | 227,508 | 146,265 | 33,639 | 40,072 | 18 |
| Deferred tax liabilities | | | | | |
| Other | | | | | |
| Elimination of intersegment balances | | | | | |
| Total liabilities | | | | | |
| Depreciation, depletion and amortisation | 50,219 | 11,133 | 5,935 | 5,929 | |
| Assets impairment losses | (1,695) | 66 | (326) | 8 | |
| Capital expenditure | | | | | |
| - Tangible assets | 134,256 | 26,546 | 8,165 | 11,003 | |
| - Intangible assets | 424 | 3,447 | 298 | 162 | |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| | EXPLORATION AND PRODUCTION | REFINING AND MARKETING | CHEMICALS AND MARKETING | NATURAL GAS AND PIPELINE | OTHER | TO |
|--|----------------------------------|------------------------------|-------------------------------|--------------------------------|-------|-----------|
| Revenue (including intersegment revenue) | 421,340 | 543,299 | 82,791 | 38,917 | 1,080 | 1,080 |
| Less: Intersegment sales | (339,619) | (44,806) | (7,983) | (5,617) | (424) | (397,449) |
| Revenue from external customers | 81,721 | 498,493 | 74,808 | 33,300 | 656 | 687,978 |

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| | | | | | | |
|--|--------------------|--------------------|-------------------|-------------------|------------------|-------------------|
| Segment expenses (i) | ===== (200,114) | ===== (240,941) | ===== (33,237) | ===== (11,818) | ===== (7,651) | ===== (49,199) |
| Segment result | 213,501 | (26,789) | 6,063 | 9,031 | (6,589) | 19,199 |
| Unallocated expenses | | | | | | (1,000) |
| Operating profit | | | | | | 19,199 |
| Segment assets | 438,398 | 252,941 | 81,451 | 75,611 | 638,532 | 1,488,199 |
| Deferred tax assets | | | | | | 1,000 |
| Elimination of intersegment balances | | | | | | (68,000) |
| Total assets | | | | | | 81,199 |
| Segment liabilities | 201,418 | 99,178 | 27,082 | 43,616 | 166,950 | 53,199 |
| Deferred tax liabilities | | | | | | 1,000 |
| Other | | | | | | 2,000 |
| Elimination of intersegment balances | | | | | | (32,000) |
| Total liabilities | | | | | | 24,199 |
| Depreciation, depletion and amortisation | 45,766 | 9,963 | 5,550 | 5,246 | 570 | 6,000 |
| Assets impairment losses | 41 | 1,915 | 947 | -- | 11 | |
| Capital expenditure | | | | | | |
| - Tangible assets | 105,192 | 19,206 | 10,681 | 11,309 | 2,358 | 14,000 |
| - Intangible assets | 277 | 3,052 | 564 | 18 | 182 | |

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

(2) SECONDARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

| REVENUE FROM EXTERNAL CUSTOMERS | 2007 | 2006 |
|------------------------------------|---------|---------|
| ----- | ----- | ----- |
| PRC | 807,706 | 665,267 |
| Other (Exploration and Production) | 27,331 | 23,711 |
| | ----- | ----- |
| | 835,037 | 688,978 |
| | ===== | ===== |

| TOTAL ASSETS | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|------------------------------------|-------------------|-------------------|
| ----- | ----- | ----- |
| PRC | 924,931 | 765,373 |
| Other (Exploration and Production) | 69,161 | 49,771 |
| | ----- | ----- |
| | 994,092 | 815,144 |
| | ===== | ===== |

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(All amounts in RMB millions unless otherwise stated)

9. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) PARENT COMPANY AND SUBSIDIARIES

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

(a) Parent company

| | PLACE OF INCORPORATION | PRINCIPAL ACTIVITIES |
|--------------------------------------|------------------------|--|
| | ----- | ----- |
| China National Petroleum Corporation | PRC | Exploration, development, production, transportation and sale of petroleum products, cooperation |

(b) Equity interest and voting rights of parent company

| | DECEMBER 31, 2007 | | DECEMBER 31, 2006 | |
|--------------------------------------|-------------------|-----------------|-------------------|-----------------|
| | ----- | ----- | ----- | ----- |
| | EQUITY INTEREST % | VOTING RIGHTS % | EQUITY INTEREST % | VOTING RIGHTS % |
| | ----- | ----- | ----- | ----- |
| China National Petroleum Corporation | 86.29 | 86.29 | 88.21 | 88.21 |

(2) NATURE OF RELATED PARTIES THAT ARE NOT CONTROLLED BY THE COMPANY

| NAMES OF RELATED PARTIES | RELATIONSHIP WITH THE COMPANY |
|--|-------------------------------|
| ----- | ----- |
| Dalian West Pacific Petrochemical Co., Ltd. | Associate |
| China Marine Bunker (Petrochina) Co., Ltd. | Jointly controlled entity |
| Dagang Oilfield (Company) Company Limited | Fellow subsidiary of CNPC |
| CNPC Oriental Geophysical Exploration Company Limited | Fellow subsidiary of CNPC |
| China Petroleum Logging Company Limited | Fellow subsidiary of CNPC |
| Daqing Petroleum Administrative Bureau | Fellow subsidiary of CNPC |
| Liaohu Petroleum Exploration Bureau | Fellow subsidiary of CNPC |
| China Petroleum Pipeline Bureau | Fellow subsidiary of CNPC |
| Daqing Petrochemical Factory | Fellow subsidiary of CNPC |
| China Petroleum Material Equipment Company | Fellow subsidiary of CNPC |
| China Petroleum Finance Company Limited | Fellow subsidiary of CNPC |
| China National Oil and Gas Exploration and Development Corporation | Fellow subsidiary of CNPC |
| China National United Oil Corporation | Fellow subsidiary of CNPC |

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(All amounts in RMB millions unless otherwise stated)

(3) SUMMARY OF SIGNIFICANT RELATED PARTY TRANSACTIONS

Related party transactions with CNPC and its subsidiaries:

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

Note:

- (1) Sales of goods and services represent sales of crude oil, petroleum products and chemicals at market prices.
- (2) Under the Comprehensive Products and Services Agreement entered into between CNPC and the Company, certain construction and technical services provided by CNPC are charged at cost plus an additional margin of not more than 15%, including exploration and development services and oilfield construction services.
 - (2a) Direct costs for exploration and development services comprise geophysical survey, drilling, well cementing, logging and well testing.
 - (2b) The fees paid for other construction and technical services comprise fees for construction of refineries and chemical plants and technical services in connection with oil and gas exploration and production activities such as oilfield construction, technology research, engineering and design, etc..
- (3) The fees paid for production services comprise fees for the repair of machinery, supply of water, electricity and gas at the state-prescribed prices, provision of services such as communications, transportation, fire fighting, asset leasing, environmental protection and sanitation, maintenance of roads, manufacture of replacement parts and machinery at cost or market prices.
- (4) These represent expenditures for social welfare and support services based on the number of employees, total income or total assets which are charged at cost.
- (5) Ancillary service charges represent mainly fees for property management,

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the provision of training centres, guesthouses, canteens, public shower rooms, etc. at market prices.

- (6) CNPC purchases raw materials on behalf of the Group and charges commission thereon. The commission is calculated at rates ranging from 1% to 5% of the goods purchased.
- (7) The bank deposits in CP Finance as of December 31, 2007 were RMB 8,393 (2006: RMB 8,937). Interest income is calculated according to the prevailing interest rates.

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(All amounts in RMB millions unless otherwise stated)

- (8) The loans from CP Finance including short-term borrowings, long-term borrowings due within one year and long-term borrowings as of December 31, 2007 were RMB 24,482 (2006: RMB 27,162).
- (9) Rental was paid for the operating lease of land and buildings at the prices prescribed in the Building and Land Use Rights leasing contract with CNPC.
- (10) Purchases of assets principally represent the purchases of manufacturing equipment, office equipment, transportation equipment, etc. at market prices.
- (11) Besides the investment in CP Finance RMB 377 as of December 31, 2007 (2006: RMB 377), the Group did not have any individual investment in CNPC and its subsidiaries greater than RMB 100. The Group's equity interest in CP Finance as of December 31, 2007 was 9.5% (2006: 9.5%). CP Finance's operating period started in 1995, without limited date for ending.

Related party transactions with associates and jointly controlled entities:

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

(4) COMMISSIONED LOANS

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

(5) GUARANTEES

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

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

(6) RECEIVABLES AND PAYABLES WITH RELATED PARTIES

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

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|--|-------------------|-------------------|
| | ----- | ----- |
| CNPC AND ITS SUBSIDIARIES | | |
| Accounts receivable | 3,796 | 599 |
| Other receivables | 2,351 | 2,797 |
| Advances to suppliers | 7,984 | 4,619 |
| ASSOCIATES AND JOINTLY CONTROLLED ENTITIES | | |
| Accounts receivable | 296 | 82 |

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NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

| | | |
|----------------------|-------|-------|
| Other receivables | 2,300 | 4,063 |
| Advance to suppliers | 112 | 244 |

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

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

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|--|-------------------|-------------------|
| | ----- | ----- |
| CNPC AND ITS SUBSIDIARIES | | |
| Accounts payables | 29,507 | 24,492 |
| Other payables | 2,625 | 3,206 |
| Advances from customers | 924 | 648 |
| ASSOCIATES AND JOINTLY CONTROLLED ENTITIES | | |
| Accounts payables | 35 | 914 |
| Other payables | 3 | 401 |
| Advances from customers | 65 | 125 |

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

(7) SUMMARY OF TRANSACTIONS WITH SUBSIDIARIES

Significant related party transactions with subsidiaries:

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

Receivables and payables with subsidiaries:

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|-------------------|-------------------|-------------------|
| Other receivables | 12,997 | 7,890 |
| Other payables | 33,227 | 30,428 |

(8) KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

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(All amounts in RMB millions unless otherwise stated)

10. CONTINGENT LIABILITIES

(1) BANK AND OTHER GUARANTEES

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

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

(2) ENVIRONMENTAL LIABILITIES

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

(3) LEGAL CONTINGENCIES

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

(4) LEASING OF ROADS, LAND AND BUILDINGS

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

- CNPC will use its best endeavors to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued.
- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

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As at December 31, 2007, CNPC had obtained formal land use right

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certificates in relation to 27,554 out of the above-mentioned 28,649 parcels of land and some building ownership certificates for the above-mentioned buildings, but has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively-owned land. The management of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. In management's opinion, the outcome of the above events will not have a material adverse effect on the operating results and the financial position of the Group.

(5) GROUP INSURANCE

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

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11. COMMITMENTS

(1) OPERATING LEASE COMMITMENTS

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

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

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

(2) CAPITAL COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not yet

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recognised in the financial statements are as follows:

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

(3) EXPLORATION AND PRODUCTION LICENSES

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

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

| | DECEMBER 31, 2007 |
|-------------|-------------------|
| | ----- |
| First year | 906 |
| Second year | 906 |
| Third year | 906 |
| Fourth year | 906 |
| Fifth year | 906 |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

12. FINANCIAL RISK MANAGEMENT

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

(1) FOREIGN EXCHANGE RATE RISK

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

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(2) CASH FLOW AND FAIR VALUE INTEREST RATE RISK

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

(3) PRICE RISK

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

(4) CREDIT RISK

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

The Group has no significant concentration of credit risk.

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

(5) FAIR VALUE ESTIMATION

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

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash at bank and on hands, accounts receivable, other receivables, accounts payable, other payables and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 23.

13. OTHER SIGNIFICANT MATTERS

The Company has adopted a share option scheme which is a share appreciation right arrangement payable in cash to the recipients upon exercise of the rights which became effective on the initial public offering of the H shares of the Company on April 7, 2000. The management personnel comprising directors, supervisors and senior executives of the Company are eligible for the scheme. 87,000,000 units of share appreciation rights were granted to senior executives. 35,000,000 units were granted to the directors and supervisors; of these

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35,000,000 units, 33,130,000 units are outstanding, net of subsequent forfeiture of 1,870,000 units by a former independent director.

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in RMB millions unless otherwise stated)

14. FIRST TIME ADOPTION OF CAS

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

| | CONSOLIDATED SHAREHOLDERS' EQUITY AS OF JANUARY 1, 2006 | CONSOLIDATED NET PROFIT FOR THE YEAR ENDED DECEMBER 31, 2006 | |
|---|---|--|-------|
| | ----- | ----- | ----- |
| Amounts presented in accordance with the old CAS | 491,935 | 133,555 | |
| Difference in long-term equity investments | 199 | 30 | |
| Including: | | | |
| Credit difference derived from other long-term equity investments accounted for using the equity method | 97 | (27) | |
| Debit difference derived from other long-term equity investments accounted for using the equity method | 102 | 57 | |
| Adjustment due to change in net identifiable assets of investees | 12 | 25 | |
| Excess of cost less fair value derived from business combination under common control | (6,946) | 695 | |
| Negative goodwill derived from business combination under common control | 494 | (73) | |
| Revaluation derived from business combination under common control | (6,297) | 156 | |
| Purchase of subsidiaries' minority interest | (1,339) | 315 | |
| Assets retirement obligation expense due to effective interest rate method | (326) | (796) | |
| Depreciation of oil and gas properties related to assets retirement obligation | (367) | (1,670) | |
| Assets retirement obligation that is settled | 1 | 96 | |
| Retrospective adjustments made to business combination under common control | 1,409 | -- | |

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Adjustments:

| | | |
|---|-----|---------|
| Depletion of oil and gas properties | (1) | (7,463) |
| Amortisation of revaluation for assets other than fixed assets and oil and gas properties in 1999 | (2) | (75) |
| 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) |
| Reversal of reversed impairment for non-current assets | (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) |
| Deferred taxation | (6) | (179) |
| | | ----- |
| Consolidated profit for the year under CAS | | 143,494 |
| | | ===== |

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

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

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

PETROCHINA COMPANY LIMITED

MANAGEMENT SUPPLEMENTARY INFORMATION

(All amounts in RMB millions unless otherwise stated)

- (3) As revaluation model is used in subsequent measurement for fixed assets and oil and gas properties by the Group under IFRS, revaluation should be carried out by independent appraisers regularly. In order to meet the requirement of IFRS, on September 30, 2003, a revaluation of the Group's refining and chemical production equipment was undertaken by a firm of independent valuers, China United Assets Appraiser Co., Ltd., in the PRC on a depreciated replacement cost basis. The result of revaluation is recognised in the financial statements under IFRS. However, fixed assets and oil and gas properties are measured by cost model under CAS. Consequently, these revaluation results are not recognised in the financial statements under CAS.
- (4) Under CAS, once recognised, the impairment loss for long-term assets, such as fixed assets, oil and gas properties, intangible assets and long-term equity investment, can not be reversed in subsequent accounting periods. However, under IFRS, once changes have been indicated for various factors based on which impairment for long term assets was provided and make the recoverable amount higher than the carrying amount, the impairment loss recognised previously shall be reversed.
- (5) In accordance with the "Temporary regulation for safety expense financial management of high risk industry" from MOF of PRC, this safety fund has been accrued for the Group's oil and gas exploration, refinery and chemical production activities within PRC from Jan 1, 2007. This safety fund has been recognised into the Group's income statement. The accrued safety fund will be used for improving the safety conditions of production. As the Group did not have specific utilisation plan for this accrued safety fund as at December 31, 2007, it was reversed under IFRS.
- (6) The consequences of (1)-(5) and other differences between IFRS and CAS on deferred taxation.

(PRICEWATERHOUSECOOPERS LOGO)

(Chinese Characters)

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF PETROCHINA COMPANY LIMITED

(ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA WITH LIMITED LIABILITY)

We have audited the consolidated financial statements of PetroChina Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 166 to 226, which comprise the consolidated and Company balance sheets as at December 31, 2007, and the consolidated profit and loss account, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

OPINION

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

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

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Hong Kong, March 19, 2008

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PETROCHINA COMPANY LIMITED
 CONSOLIDATED PROFIT AND LOSS ACCOUNT
 For the year ended December 31, 2007
 (Amounts in millions)

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

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

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PETROCHINA COMPANY LIMITED
CONSOLIDATED BALANCE SHEET
As of December 31, 2007
(Amounts in millions)

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

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| | | | |
|--|----|---------|---------|
| TOTAL EQUITY | | 776,347 | 617,591 |
| NON CURRENT LIABILITIES | | | |
| Long-term borrowings | 28 | 39,688 | 35,634 |
| Asset retirement obligations | 32 | 24,761 | 18,481 |
| Deferred taxation | 31 | 20,205 | 19,583 |
| Other long-term obligations | | 1,035 | 995 |
| TOTAL NON CURRENT LIABILITIES | | 85,689 | 74,693 |
| TOTAL EQUITY AND NON CURRENT LIABILITIES | | 862,036 | 692,284 |

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

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

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PETROCHINA COMPANY LIMITED
BALANCE SHEET
As of December 31, 2007
(Amounts in millions)

| | NOTES | 2007 | 2006 |
|---|-------|---------|---------|
| | | RMB | RMB |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 16 | 560,672 | 466,707 |
| Investments in associates and jointly controlled entities | 17 | 3,309 | 3,458 |
| Available-for-sale financial assets | 18 | 1,506 | 1,011 |
| Subsidiaries | 19 | 106,816 | 111,091 |
| Advance operating lease payments | 20 | 18,998 | 15,776 |
| Intangible and other assets | 21 | 7,188 | 5,620 |
| TOTAL NON CURRENT ASSETS | | 698,489 | 603,663 |
| CURRENT ASSETS | | | |
| Inventories | 22 | 70,284 | 60,270 |
| Accounts receivable | 23 | 2,131 | 1,574 |
| Prepaid expenses and other current assets | 24 | 40,514 | 22,052 |
| Notes receivable | 25 | 3,988 | 2,097 |
| Time deposits with maturities over three months but within one year | | 18,000 | 3,000 |
| Cash and cash equivalents | 26 | 60,332 | 45,029 |
| TOTAL CURRENT ASSETS | | 195,249 | 134,022 |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | 27 | 131,979 | 120,000 |

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| | | | |
|---|----|---------|----------|
| Income tax payable | | 8,542 | 15,568 |
| Other taxes payable | | 5,251 | 3,296 |
| Short-term borrowings | 28 | 26,927 | 27,676 |
| | | ----- | ----- |
| TOTAL CURRENT LIABILITIES | | 172,699 | 166,540 |
| | | ----- | ----- |
| NET CURRENT ASSETS/(LIABILITIES) | | 22,550 | (32,518) |
| | | ----- | ----- |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 721,039 | 571,145 |
| | | ===== | ===== |
| EQUITY | | | |
| Equity attributable to equity holders of the Company: | | | |
| Share capital | 29 | 183,021 | 179,021 |
| Retained earnings | | 265,806 | 205,379 |
| Reserves | 30 | 215,561 | 140,407 |
| | | ----- | ----- |
| TOTAL EQUITY | | 664,388 | 524,807 |
| | | ----- | ----- |
| NON CURRENT LIABILITIES | | | |
| Long-term borrowings | 28 | 32,544 | 27,665 |
| Asset retirement obligations | 32 | 15,307 | 11,269 |
| Deferred taxation | 31 | 7,849 | 6,480 |
| Other long-term obligations | | 951 | 924 |
| | | ----- | ----- |
| TOTAL NON CURRENT LIABILITIES | | 56,651 | 46,338 |
| | | ----- | ----- |
| TOTAL EQUITY AND NON CURRENT LIABILITIES | | 721,039 | 571,145 |
| | | ===== | ===== |

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

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

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PETROCHINA COMPANY LIMITED
CONSOLIDATED CASH FLOW STATEMENT
For the Year Ended December 31, 2007
(Amounts in millions)

| | NOTES | 2007 | 2006 |
|---|-------|-----------|--------|
| | ----- | ----- | ----- |
| | | RMB | RMB |
| CASH FLOWS FROM OPERATING ACTIVITIES | 33 | 203,748 | 198,1 |
| | | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Capital expenditures | | (172,511) | (130,4 |
| Acquisition of investments in associates and jointly controlled entities | | (1,903) | (1,1 |
| Acquisition of available-for-sale financial assets | | (324) | (|
| Consolidation/(acquisition) of PetroKazakhstan Inc. | 17 | 1,542 | (21,3 |
| Net proceeds from investments in collateralised loans with maturities not greater than three months | | -- | 2 |

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| | | | |
|---|----|-----------|--------|
| Acquisition of intangible assets | | (2,521) | (1,3 |
| Acquisition of other non-current assets | | (857) | (1,7 |
| Purchase of minority interest in listed subsidiaries | 19 | (149) | (4,0 |
| Other purchase of minority interest | | (29) | (6 |
| Repayment of capital by associates and jointly controlled entities | | 6,618 | |
| Proceeds from disposal of property, plant and equipment | | 1,014 | 3 |
| Proceeds from disposal of investments in associates and jointly controlled entities | | 1,033 | |
| Proceeds from disposal of available-for-sale financial assets | | 276 | |
| Proceeds from disposal of intangible and other non-current assets | | -- | |
| Dividends received | | 1,463 | 2,0 |
| Increase in time deposits with maturities over three months | | (17,857) | (4 |
| | | ----- | ----- |
| NET CASH USED FOR INVESTING ACTIVITIES | | (184,205) | (158,4 |
| | | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayments of short-term borrowings | | (33,027) | (28,3 |
| Repayments of long-term borrowings | | (24,071) | (17,5 |
| Dividends paid to minority interest | | (6,150) | (3,0 |
| Dividends paid to equity holders of the Company | 15 | (64,517) | (68,5 |
| Issuance of A shares | 29 | 66,243 | |
| Increase in short-term borrowings | | 36,842 | 30,1 |
| Increase in long-term borrowings | | 20,650 | 14,1 |
| Capital contribution from minority interest | | 1,349 | 1,4 |
| Change in other long-term obligations | | 33 | (|
| | | ----- | ----- |
| NET CASH USED FOR FINANCING ACTIVITIES | | (2,648) | (71,7 |
| | | ----- | ----- |
| TRANSLATION OF FOREIGN CURRENCY | | 40 | (2 |
| | | ----- | ----- |
| Increase/(Decrease) in cash and cash equivalents | | 16,935 | (32,3 |
| Cash and cash equivalents at beginning of the year | 26 | 48,559 | 80,9 |
| | | ----- | ----- |
| Cash and cash equivalents at end of the year | 26 | 65,494 | 48,5 |
| | | ===== | ===== |

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

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PETROCHINA COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2007
(Amounts in millions)

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | MI IN |
|----------------------------------|---|----------------------|----------|----------|----------|
| | SHARE CAPITAL | RETAINED EARNINGS | RESERVES | SUBTOTAL | |
| | RMB | RMB | RMB | RMB | |
| Balance at January 1, 2006 | 179,021 | 203,812 | 132,556 | 515,389 | 2 |
| Currency translation differences | -- | -- | (191) | (191) | |

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| | | | | |
|---|---------|----------|---------|----------|
| Net loss recognised directly in equity | -- | -- | (191) | (191) |
| Profit for the year ended December 31, 2006 | -- | 142,224 | -- | 142,224 |
| Total recognised income/(loss) for 2006 | -- | 142,224 | (191) | 142,033 |
| Transfer to reserves (Note 30) | -- | (13,355) | 13,355 | -- |
| Final dividends for 2005 (Note 15) | -- | (32,282) | -- | (32,282) |
| Interim dividends for 2006 (Note 15) | -- | (36,307) | -- | (36,307) |
| Dividends to minority interest | -- | -- | -- | -- |
| Purchase of minority interest in subsidiaries (Note 19) | -- | -- | (2,156) | (2,156) |
| Capital contribution from minority interest | -- | -- | -- | -- |
| Other | -- | -- | -- | -- |
| Balance at December 31, 2006 | 179,021 | 264,092 | 143,564 | 586,677 |
| Currency translation differences | -- | -- | (771) | (771) |
| Net loss recognised directly in equity | -- | -- | (771) | (771) |
| Profit for the year ended December 31, 2007 | -- | 145,625 | -- | 145,625 |
| Total recognised income/(loss) for 2007 | -- | 145,625 | (771) | 144,854 |
| Transfer to reserves (Note 30) | -- | (12,768) | 12,768 | -- |
| Final dividends for 2006 (Note 15) | -- | (27,694) | -- | (27,694) |
| Interim dividends for 2007 (Note 15) | -- | (36,823) | -- | (36,823) |
| Dividends to minority interest | -- | -- | -- | -- |
| Purchase of minority interest in subsidiaries (Note 19) | -- | -- | (113) | (113) |
| Issuance of A shares | 4,000 | -- | 62,243 | 66,243 |
| Consolidation of PetroKazakhstan Inc. | -- | -- | -- | -- |
| Capital contribution from minority interest | -- | -- | -- | -- |
| Fair value gain from available-for-sale financial assets | -- | -- | 261 | 261 |
| Other | -- | -- | -- | -- |
| Balance at December 31, 2007 | 183,021 | 332,432 | 217,952 | 733,405 |

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in millions unless otherwise stated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

The Group is principally engaged in (i) the exploration, development and

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production and sale of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, (iii) the production and sale of chemicals, and (iv) the transmission, marketing and sale of natural gas (Note 39).

2 BASIS OF PREPARATION

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

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

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

3 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(A) BASIS OF CONSOLIDATION

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

A subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries except for the business

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combination under common control. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of

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the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

A listing of the Group's principal subsidiaries is set out in Note 19.

(B) INVESTMENTS IN ASSOCIATES

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

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

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A listing of the Group's principal associates is shown in Note 17.

(C) INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

(D) TRANSACTIONS WITH MINORITY INTEREST

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

(E) FOREIGN CURRENCIES

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). Most assets and operations of the Group are located in the PRC (Note 39), and the functional currency of the Company and most of the consolidated subsidiaries is the Renminbi ("RMB"). The consolidated financial statements are presented in the presentation currency of RMB.

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

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

The Group has no material hedge contracts during any of the years presented. No foreign currency exchange gains or losses were capitalised in any of the years presented.

(F) PROPERTY, PLANT AND EQUIPMENT

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

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In the intervening years between independent revaluations, the directors review the carrying values of the property, plant and equipment and adjustments are made if the carrying values differ significantly from their respective fair values.

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

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

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

The Group uses the following useful lives for depreciation purposes:

| | |
|-------------------------|--------------|
| Buildings | 8 - 40 years |
| Equipment and Machinery | 4 - 30 years |
| Motor vehicles | 7 - 14 years |
| Other | 5 - 12 years |

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

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

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

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

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

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(G) OIL AND GAS PROPERTIES

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

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Future oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses. Payments on such licenses are made annually and are expensed as incurred.

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

(H) INTANGIBLE ASSETS

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

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(I) FINANCIAL ASSETS

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

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise accounts receivable, notes receivable, other receivables, time deposits and cash and cash equivalents in the balance sheet. The recognition methods for loans and receivables are disclosed in the respective policy statements.

- Available-for-sale financial assets

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

Regular purchases and sales of available-for-sale financial assets are recognised on settlement date, the date that the asset is delivered to or by the Group (the effective acquisition or sale date). Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred out substantially all risks and rewards of ownership in the investment. Available-for-sale financial assets are measured at fair value except where there are no quoted market prices in active markets and the fair values cannot be reliably measured using valuation techniques. Available-for-sale financial assets that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are carried at cost. The Group assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the available-for-sale financial asset and the present value of the estimated cash flows.

(J) LEASES

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance

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leases. The Group has no significant finance leases.

Leases of assets under which a significant portion of the risks and benefits of ownership are effectively retained by the lessors are classified as operating leases. Payments made under

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operating leases (net of any incentives received from the lessors) are expensed on a straight-line basis over the lease terms. Payments made to the PRC's land authorities to secure land use rights are treated as operating leases. Land use rights are generally obtained through advance lump-sum payments and the terms of use range up to 50 years.

(K) RELATED PARTIES

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

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

(L) INVENTORIES

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

(M) ACCOUNTS RECEIVABLE

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. Such provision for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivables. The factors the Group considers when assessing whether an account receivable is impaired include but not limited to significant financial difficulties of the customer, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(N) CASH AND CASH EQUIVALENTS

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

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from the time of purchase.

(O) ACCOUNTS PAYABLE

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

(P) BORROWINGS

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

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

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

(Q) TAXATION

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

Deferred tax is provided in full, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that has been enacted or substantially enacted by the balance sheet date and are expected to apply to the period when the related deferred tax asset is realised or deferred tax liability is settled.

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

The Group also incurs various other taxes and levies that are not income taxes. "Taxes other than income taxes", which form part of the operating expenses, primarily comprise a special levy on domestic sales of crude oil (Note 9), consumption tax, resource tax, urban construction tax, education surcharges and business tax.

(R) REVENUE RECOGNITION

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

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

(S) PROVISIONS

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

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

(T) RESEARCH AND DEVELOPMENT

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

(U) RETIREMENT BENEFIT PLANS

The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial governments under which it is required to make monthly contributions to these plans at prescribed rates for its employees in China. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retired employees of the Group in China. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expense as incurred.

The Group currently has no additional material obligations outstanding for the payment of retirement and other post-retirement benefits of employees in the PRC or overseas other than the monthly contributions described above.

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(V) SHARE-BASED COMPENSATION - SHARE APPRECIATION RIGHT

Compensation under the share appreciation rights is measured based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet date to its fair value until settlement with all the changes in liability recorded in employee compensation costs in the consolidated profit and loss account; the related liability is included in the salaries and welfare payable.

(W) NEW ACCOUNTING DEVELOPMENTS

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

IAS 23 (Amendment), 'Borrowing costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. IAS 23

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(Amendment) is effective from January 1, 2009 and the adoption of IAS 23 (Amendment) is not expected to affect the Group's financial statements as interest and other costs on borrowings to finance the construction of property, plant and equipment are capitalised under the Group's current accounting policy.

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

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

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

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

4 FINANCIAL RISK MANAGEMENT

4.1 FINANCIAL RISK FACTORS

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

(A) MARKET RISK

- Foreign exchange rate risk

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

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- Cash flow and fair value interest rate risk

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

- Price risk

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

(B) CREDIT RISK

Credit risk arises primarily from cash and cash equivalents, accounts receivable, other receivables, notes receivable and time deposits. As the majority of cash at bank and time deposits are placed with state-owned banks and financial institutions, the corresponding credit risk is relatively low. The

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Group has controls in place to assess the credit quality of its customers. The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, notes receivable and time deposits included in the consolidated balance sheet represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

The Group has no significant concentration of credit risk.

(C) LIQUIDITY RISK

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

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

4.2 CAPITAL RISK MANAGEMENT

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

4.3 FAIR VALUE ESTIMATION

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

The carrying amounts of the following financial assets and financial liabilities approximate their fair value as all of them are short-term in nature: cash and cash equivalents, time deposits with maturities over three months but within one year, accounts receivable, other receivables, trade payables, other payables and short-term borrowings. The fair values of fixed rate long-term borrowings are likely to be different from their respective carrying amounts. Analysis of the fair values and carrying amounts of long-term borrowings are presented in Note 28.

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(A) ESTIMATION OF OIL AND NATURAL GAS RESERVES

Oil and natural gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved oil and natural gas reserves, particularly proved

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

(B) ESTIMATION OF IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

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

(C) ESTIMATION OF ASSET RETIREMENT OBLIGATIONS

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

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6 TURNOVER

Turnover represents revenues from the sale of crude oil, natural gas, refined products and petrochemical products and from the transportation of crude oil and natural gas. Analysis of turnover by segment is shown in Note 39.

7 PROFIT BEFORE TAXATION

| 2007 | 2006 |
|-------|-------|
| ----- | ----- |

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

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PETROCHINA COMPANY LIMITED

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

8 EMPLOYEE COMPENSATION COSTS

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

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

9 TAXES OTHER THAN INCOME TAXES

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

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became effective from March 26, 2006.

10 INTEREST EXPENSE

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

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in millions unless otherwise stated)

11 EMOLUMENTS OF DIRECTORS AND SUPERVISORS

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

| NAME | 2007 | | | 2006 | |
|--------------------------|---|---|---|---------|---------|
| | FEE FOR DIRECTORS AND SUPERVISORS | SALARIES, ALLOWANCES AND OTHER BENEFITS | CONTRIBUTION TO RETIREMENT BENEFIT SCHEME | TOTAL | TOTAL |
| ----- | ----- | ----- | ----- | ----- | ----- |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CHAIRMAN: | | | | | |
| Mr. Chen Geng (i), (iii) | -- | 586 | 12 | 598 | 797 |
| Mr. Jiang Jiemin (iii) | -- | 886 | 30 | 916 | 722 |
| | ----- | ----- | ----- | ----- | ----- |
| | -- | 1,472 | 42 | 1,514 | 1,519 |
| | ----- | ----- | ----- | ----- | ----- |
| EXECUTIVE DIRECTORS: | | | | | |
| Mr. Su Shulin (ii) | -- | -- | -- | -- | 684 |
| Mr. Duan Wende (iii) | -- | 794 | 30 | 824 | 684 |
| | ----- | ----- | ----- | ----- | ----- |
| | -- | 794 | 30 | 824 | 1,368 |

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| | | | | | |
|--------------------------|-------|-------|-----|-------|-------|
| NON-EXECUTIVE DIRECTORS: | | | | | |
| Mr. Zheng Hu | -- | -- | -- | -- | -- |
| Mr. Zhou Jiping | -- | -- | -- | -- | -- |
| Mr. Wang Yilin | -- | -- | -- | -- | -- |
| Mr. Zeng Yukang | -- | -- | -- | -- | -- |
| Mr. Gong Huazhang | -- | -- | -- | -- | -- |
| Mr. Jiang Fan | -- | 480 | 19 | 499 | 461 |
| Mr. Chee-chen Tung | 264 | -- | -- | 264 | 275 |
| Mr. Liu Hongru | 349 | -- | -- | 349 | 279 |
| Mr. Franco Bernabe | 257 | -- | -- | 257 | 259 |
| | ----- | ----- | --- | ----- | ----- |
| | 870 | 480 | 19 | 1,369 | 1,274 |
| | ----- | ----- | --- | ----- | ----- |
| SUPERVISORS: | | | | | |
| Mr. Wang Fucheng | -- | -- | -- | -- | -- |
| Mr. Wen Qingshan | -- | -- | -- | -- | -- |
| Mr. Sun Xianfeng | -- | -- | -- | -- | -- |
| Mr. Xu Fengli (i) | -- | 252 | 12 | 264 | 459 |
| Mr. Qin Gang | -- | 454 | 15 | 469 | 295 |
| Mr. Li Yongwu | 315 | -- | -- | 315 | 330 |
| Mr. Wu Zhipan | 319 | -- | -- | 319 | 330 |
| Mr. Zhang Jinzhu | -- | 315 | 18 | 333 | -- |
| | ----- | ----- | --- | ----- | ----- |
| | 634 | 1,021 | 45 | 1,700 | 1,414 |
| | ----- | ----- | --- | ----- | ----- |
| | 1,504 | 3,767 | 136 | 5,407 | 5,575 |
| | ===== | ===== | === | ===== | ===== |

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

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

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

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PETROCHINA COMPANY LIMITED

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

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

| | 2007 | 2006 |
|-------------------------|--------|--------|
| | ----- | ----- |
| | NUMBER | NUMBER |
| | ----- | ----- |
| RMB Nil - RMB 1 million | 20 | 20 |
| | === | === |

Fee for directors and supervisors disclosed above included RMB 870 thousand

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(2006: RMB 813 thousand) paid to independent non-executive directors.

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

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

During 2007 and 2006, the Company did not incur any severance payment to any director for loss of office or any payment as inducement to any director to join the Company.

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

The rights can be exercised on or after April 8, 2003, the third anniversary of the grant, up to April 7, 2008. The exercise price is the price as at the initial public offering being HK\$1.28 per share (Note 29).

As at December 31, 2007, none of the holders of the share appreciation rights had exercised the rights. The liability for the units awarded under the scheme has been calculated based on the fair value of the liability incurred and is expensed over the vesting period. The liability is remeasured at each balance sheet date to its fair value, and amounted to approximately RMB 1,400 (2006: RMB 1,167) at December 31, 2007.

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PETROCHINA COMPANY LIMITED

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

12 TAXATION

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

In accordance with the relevant PRC income tax rules and regulations, the PRC corporate income tax rate applicable to the Group is principally 33% (2006: 33%). Operations of the Group in certain regions in China have qualified for certain tax incentives in the form of reduced income tax rate to 15% through the year 2010 and accelerated depreciation of certain property, plant and equipment.

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

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

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

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

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PETROCHINA COMPANY LIMITED

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

13 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the consolidated financial statements of the Group to the extent of RMB 145,625 for the year ended December 31, 2007 (2006: RMB 142,224).

14 BASIC AND DILUTED EARNINGS PER SHARE

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

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

There are no potential dilutive ordinary shares.

15 DIVIDENDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

| | 2007 | 2008 |
|---|--------|-------|
| | ----- | ----- |
| | RMB | |
| Final dividends attributable to equity holders of the Company for 2005 (note a) | -- | 32 |
| Interim dividends attributable to equity holders of the Company for 2006 (note b) | -- | 36 |
| Final dividends attributable to equity holders of the Company for 2006 (note c) | 27,694 | |
| Interim dividends attributable to equity holders of the Company for 2007 (note d) | 36,823 | |
| | ----- | ----- |
| | 64,517 | 68 |
| | ===== | ===== |

- (a) Final dividends attributable to equity holders of the Company in respect of 2005 of RMB 0.180325 yuan per share amounting to a total of RMB 32,282 were approved by the shareholders in the Annual General Meeting on May 26, 2006 and accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2006, and were paid on June 9, 2006.
- (b) Interim dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.202806 yuan per share amounting to a total of RMB 36,307 were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2006, and were paid on September 26, 2006.
- (c) Final dividends attributable to equity holders of the Company in respect of 2006 of RMB 0.154699 yuan per share amounting to a total of RMB 27,694 were approved by the shareholders in the Annual General Meeting on May 16, 2007 and accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2007, and were paid on June 1, 2007.
- (d) Interim dividends attributable to equity holders of the Company in respect of 2007 of RMB 0.205690 yuan per share amounting to a total of RMB 36,823 were accounted for in equity as an appropriation of retained earnings in the year ended December 31, 2007, and were paid on September 28, 2007.
- (e) At the meeting on March 19, 2008, the Board of Directors proposed final dividends attributable to equity holders of the Company in respect of 2007 of RMB 0.156859 yuan per share amounting to a total of RMB 28,708. These consolidated financial statements do not reflect this dividend payable as the final dividends were proposed after the balance sheet date and will be accounted for in equity as an appropriation of retained earnings in the year ending December 31, 2008 when approved at the forthcoming Annual General Meeting.

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16 PROPERTY, PLANT AND EQUIPMENT

GROUP

| YEAR ENDED DECEMBER 31, 2006 ----- | BUILDINGS ----- RMB | OIL AND GAS PROPERTY ----- RMB | EQUIPMENT AND MACHINERY ----- RMB | MOTOR VEHICLES ----- RMB | OTHER ----- RMB |
|--|---------------------------|--|---|-----------------------------------|-----------------------|
| COST OR VALUATION | | | | | |
| At beginning of the year | 73,133 | 497,632 | 277,364 | 10,829 | 7,051 |
| Additions | 516 | 4,080 | 656 | 1,597 | 20 |
| Transfers | 7,156 | 85,178 | 33,621 | -- | 989 |
| Disposals or write off | (723) | (11,420) | (3,756) | (297) | (102) |
| Currency translation differences | 61 | (149) | (50) | (17) | 18 |
| At end of the year | 80,143 | 575,321 | 307,835 | 12,112 | 7,976 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | |
| At beginning of the year | (16,029) | (203,416) | (128,932) | (5,555) | (3,686) |
| Charge for the year | (3,643) | (31,540) | (21,431) | (1,107) | (755) |
| Disposals or write off | 418 | 1,186 | 2,544 | 126 | 67 |
| Currency translation differences | (19) | 93 | 35 | 6 | (7) |
| At end of the year | (19,273) | (233,677) | (147,784) | (6,530) | (4,381) |
| NET BOOK VALUE | | | | | |
| At end of the year | 60,870 | 341,644 | 160,051 | 5,582 | 3,595 |
| ANALYSIS OF COST OR VALUATION | | | | | |
| At valuation (i) | 21,851 | 497,971 | 151,591 | 2,328 | 1,159 |
| At cost (ii) | 58,292 | 77,350 | 156,244 | 9,784 | 6,817 |
| | 80,143 | 575,321 | 307,835 | 12,112 | 7,976 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 57,204 | 338,007 | 145,571 | 5,171 | 3,120 |

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PETROCHINA COMPANY LIMITED

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

GROUP (CONTINUED)

| YEAR ENDED DECEMBER 31, 2007 ----- | BUILDINGS ----- RMB | OIL AND GAS PROPERTY ----- RMB | EQUIPMENT AND MACHINERY ----- RMB | MOTOR VEHICLES ----- RMB | OTHER ----- RMB | CONSTRUCTION IN PROGRESS ----- RMB |
|--|---------------------------|--|---|-----------------------------------|-----------------------|---|
|--|---------------------------|--|---|-----------------------------------|-----------------------|---|

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| | | | | | | |
|---|----------|-----------|-----------|---------|---------|-----------|
| COST OR VALUATION | | | | | | |
| At beginning of the year | 80,143 | 575,321 | 307,835 | 12,112 | 7,976 | 73,892 |
| Additions | 2,928 | 7,513 | 2,296 | 3,237 | 293 | 170,031 |
| Transfers | 8,778 | 96,332 | 25,916 | -- | 885 | (131,911) |
| Consolidation of PetroKazakhstan Inc. | 184 | 8,119 | 247 | 170 | 136 | 1,310 |
| Disposals or write off | (1,585) | (17,700) | (2,443) | (423) | (265) | -- |
| Currency translation differences | (52) | (878) | (133) | (10) | (19) | (189) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| At end of the year | 90,396 | 668,707 | 333,718 | 15,086 | 9,006 | 113,133 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | |
| At beginning of the year | (19,273) | (233,677) | (147,784) | (6,530) | (4,381) | (297) |
| Charge for the year | (5,023) | (36,400) | (19,939) | (1,213) | (775) | (5) |
| Disposals or write off | 1,459 | 4,687 | 1,073 | 344 | 102 | 17 |
| Currency translation differences | 8 | 398 | 25 | 6 | 14 | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| At end of the year | (22,829) | (264,992) | (166,625) | (7,393) | (5,040) | (285) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| NET BOOK VALUE | | | | | | |
| At end of the year | 67,567 | 403,715 | 167,093 | 7,693 | 3,966 | 112,848 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| ANALYSIS OF COST OR VALUATION | | | | | | |
| At valuation (i) | 20,266 | 480,271 | 149,148 | 1,905 | 894 | -- |
| At cost (ii) | 70,130 | 188,436 | 184,570 | 13,181 | 8,112 | 113,133 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 90,396 | 668,707 | 333,718 | 15,086 | 9,006 | 113,133 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 64,439 | 400,611 | 154,734 | 7,342 | 3,557 | 112,848 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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PETROCHINA COMPANY LIMITED

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

COMPANY

| YEAR ENDED DECEMBER 31, 2006 ----- | BUILDINGS ----- RMB | OIL AND GAS PROPERTY ----- RMB | EQUIPMENT AND MACHINERY ----- RMB | MOTOR VEHICLES ----- RMB | OTHER ----- RMB | CONSTRUCTION IN PROGRESS ----- RMB |
|--|---------------------------|--|---|-----------------------------------|-----------------------|---|
| COST OR VALUATION | | | | | | |
| At beginning of the year | 51,506 | 323,165 | 220,142 | 6,456 | 5,323 | 44,701 |

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| | | | | | | |
|--|----------|-----------|-----------|---------|---------|----------|
| Transfer from subsidiaries | 291 | -- | 6,341 | 59 | 58 | 201 |
| Additions | 311 | 3,582 | 576 | 1,034 | 8 | 110,273 |
| Transfers | 2,993 | 61,837 | 28,362 | -- | 398 | (93,590) |
| Disposals or write off | (668) | (9,081) | (3,140) | (243) | (97) | -- |
| At end of the year | 54,433 | 379,503 | 252,281 | 7,306 | 5,690 | 61,585 |
| ACCUMULATED DEPRECIATION AND IMPAIRMENT | | | | | | |
| At beginning of the year | (12,101) | (130,293) | (103,050) | (3,521) | (2,367) | (85) |
| Transfer from subsidiaries | (71) | -- | (3,213) | (24) | (43) | -- |
| Charge for the year | (2,919) | (21,859) | (16,467) | (658) | (255) | (167) |
| Disposals or write off | 407 | 87 | 2,330 | 113 | 65 | -- |
| At end of the year | (14,684) | (152,065) | (120,400) | (4,090) | (2,600) | (252) |
| NET BOOK VALUE | | | | | | |
| At end of the year | 39,749 | 227,438 | 131,881 | 3,216 | 3,090 | 61,333 |
| ANALYSIS OF COST OR VALUATION | | | | | | |
| At valuation (i) | 14,985 | 323,850 | 123,245 | 1,496 | 1,164 | -- |
| At cost (ii) | 39,448 | 55,653 | 129,036 | 5,810 | 4,526 | 61,585 |
| | 54,433 | 379,503 | 252,281 | 7,306 | 5,690 | 61,585 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | | | | | | |
| | 38,532 | 221,804 | 118,135 | 2,972 | 2,584 | 61,333 |

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PETROCHINA COMPANY LIMITED

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

COMPANY (CONTINUED)

| YEAR ENDED DECEMBER 31, 2007 | BUILDINGS | OIL AND GAS PROPERTY | EQUIPMENT AND MACHINERY | MOTOR VEHICLES | OTHER | CONSTRUCTION IN PROGRESS |
|---------------------------------|-----------|----------------------------|-------------------------------|-------------------|-------|-----------------------------|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| COST OR VALUATION | | | | | | |
| At beginning of the year | 54,433 | 379,503 | 252,281 | 7,306 | 5,690 | 61,585 |
| Transfer from subsidiaries | 2,246 | 4,395 | 15,228 | 348 | 1,591 | 165 |
| Additions | 1,993 | 4,654 | 2,236 | 2,497 | 227 | 129,890 |
| Transfers | 6,688 | 70,993 | 21,862 | -- | 512 | (100,055) |

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| | | | | | | |
|--|----------|-----------|-----------|---------|---------|--------|
| Disposals or write off | (1,265) | (10,272) | (2,103) | (234) | (103) | -- |
| At end of the year | 64,095 | 449,273 | 289,504 | 9,917 | 7,917 | 91,585 |
| ACCUMULATED | | | | | | |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At beginning of the year | (14,684) | (152,065) | (120,400) | (4,090) | (2,600) | (252) |
| Transfer from subsidiaries | (1,015) | (2,583) | (10,400) | (266) | (1,102) | (6) |
| Charge for the year | (3,922) | (24,651) | (16,245) | (730) | (402) | (1) |
| Disposals or write off | 1,148 | 1,632 | 768 | 212 | 26 | 9 |
| At end of the year | (18,473) | (177,667) | (146,277) | (4,874) | (4,078) | (250) |
| NET BOOK VALUE | | | | | | |
| At end of the year | 45,622 | 271,606 | 143,227 | 5,043 | 3,839 | 91,335 |
| ANALYSIS OF COST OR VALUATION | | | | | | |
| At valuation (i) | 13,720 | 313,578 | 121,142 | 1,262 | 1,061 | -- |
| At cost (ii) | 50,375 | 135,695 | 168,362 | 8,655 | 6,856 | 91,585 |
| | 64,095 | 449,273 | 289,504 | 9,917 | 7,917 | 91,585 |
| Carrying value of the property, plant and equipment had they been stated at cost less accumulated depreciation | 44,596 | 266,783 | 131,498 | 4,833 | 3,405 | 91,335 |

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

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

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

| | GROUP | |
|------------------------|-------|-------|
| | 2007 | 2006 |
| | RMB | RMB |
| Refining and Marketing | 201 | 1,734 |
| Chemical and Marketing | 93 | 908 |
| | 294 | 2,642 |
| | === | ===== |

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PETROCHINA COMPANY LIMITED

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

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

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

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

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

| | GROUP | | COMPANY | |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Exploration and Production | 45 | 45 | 45 | 45 |
| Refining and Marketing | 7 | -- | 6 | -- |
| Accumulated depreciation | (24) | (18) | (24) | (18) |
| | --- | --- | --- | --- |
| | 28 | 27 | 27 | 27 |
| | === | === | === | === |

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

The following table indicates the changes to the Group's exploratory well costs, which are included in construction in progress, for the years ended December 31, 2007 and 2006.

| | 2007 | 2006 |
|--|--------|--------|
| | ----- | ----- |
| | RMB | RMB |
| Beginning balance at January 1 | 8,998 | 8,296 |
| Additions to capitalised exploratory well costs pending the determination of proved reserves | 22,649 | 19,076 |

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| | | |
|--|----------|---------|
| Reclassified to wells, facilities, and equipment based on the determination of proved reserves | (10,534) | (8,880) |
| Capitalised exploratory well costs charged to expense | (9,161) | (9,494) |
| | ----- | ----- |
| Ending balance at December 31 | 11,952 | 8,998 |
| | ===== | ===== |
| Number of wells at year end | 928 | 869 |
| | ===== | ===== |

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

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

RMB 971 at December 31, 2007 for capitalised exploratory well costs over one year are principally related to wells that are under further evaluation of drilling results or pending completion of development planning to ascertain economic viability.

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

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

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

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

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

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

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17 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

| NAME ----- | COUNTRY OF INCORPORATION ----- | ASSETS RMB ----- | LIABILITIES RMB ----- | REVENUES RMB ----- | PROFIT RMB ----- | INTEREST HELD % ----- |
|--|--------------------------------------|------------------------|-----------------------------|--------------------------|------------------------|-----------------------------|
| As of or for the year ended December 31, 2007: | | | | | | |
| Dalian West Pacific Petrochemical Co., Ltd. | PRC | 4,044 | 3,097 | 10,116 | 174 | 28.44 |
| China Marine Bunker (PetroChina) Co., Ltd. | PRC | 3,128 | 2,006 | 17,030 | 137 | 50.00 |
| PetroKazakhstan Inc. | Canada | -- | -- | 12,361 | 4,498 | 67.00 |
| Other | | 34,929 | 10,463 | 38,549 | 2,188 | 20.00-50.00 |
| | | ----- | ----- | ----- | ----- | |
| | | 42,101 | 15,566 | 78,056 | 6,997 | |
| | | ===== | ===== | ===== | ===== | |
| As of or for the year ended December 31, 2006: | | | | | | |
| Dalian West Pacific Petrochemical Co., Ltd. | PRC | 3,410 | 2,608 | 10,188 | 6 | 28.44 |
| China Marine Bunker (PetroChina) Co., Ltd. | PRC | 3,388 | 2,098 | 19,003 | 139 | 50.00 |
| PetroKazakhstan Inc. | Canada | 22,642 | 1,240 | 144 | 43 | 67.00 |
| Other | | 26,995 | 17,533 | 40,903 | 2,089 | 20.00-70.00 |
| | | ----- | ----- | ----- | ----- | |
| | | 56,435 | 23,479 | 70,238 | 2,277 | |
| | | ===== | ===== | ===== | ===== | |

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

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

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

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the period from December 28, 2006 to December 31, 2006, and also from January 1, 2007 to December 11, 2007.

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

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PETROCHINA COMPANY LIMITED

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

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

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

19 SUBSIDIARIES

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The principal subsidiaries of the Group are:

| COMPANY NAME | COUNTRY OF INCORPORATION | PAID-UP CAPITAL RMB | TYPE OF LEGAL ENTITY | ATTRIBUTABLE EQUITY INTEREST % | PRINCIPAL ACTIVITIES |
|--|--------------------------|-------------------------|--|--------------------------------|---|
| Daqing Oilfield Company Limited | PRC | 47,500 | Limited liability company | 100.00 | Exploration, production and sale of crude oil and natural gas production and sale of refined products |
| Daqing Yu Shu Lin Oilfield Company Limited | PRC | 1,272 | Limited liability company | 88.16 | Exploration, production and sale of crude oil and natural gas |
| CNPC Exploration and Development Company Limited | PRC | 100 | Limited liability company | 50.00 | Exploration, production and sale of crude oil and natural gas outside of the PRC |
| PetroKazakhstan Inc. (Note 17) | Canada | US Dollar 2,465 million | Joint stock company with limited liability | 67.00 | Exploration, production and sale of crude oil and natural gas outside of the PRC |

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

| ENTITY NAME | NUMBER OF OUTSTANDING SHARES | PURCHASE PRICE PER SHARE | NUMBER OF SHARES ACQUIRED | TOTAL CASH CONSIDERATION PAID | EQUITY INTEREST HELD AFTER THE ACQUISITION % | |
|--|------------------------------|---------------------------|--|---------------------------------|--|---|
| Jinzhou PetroChemical Company Limited ("JCPL") | 150,000,000 A shares | RMB 4.25 yuan per A share | 150,000,000 A shares as of June 30, 2007 | RMB 638 as of December 31, 2007 | 100.00 | JCPL was acquired from the Stock Exchange of Hong Kong in January 2007. In November 2007, the Liabilities Administration of the Industrial and Commercial Commission of the Government of the Hong Kong Special Administrative Region ("IAC") deregistered JCPL as a company incorporated in Hong Kong. |

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| | | | | | | |
|--|----------------------|---------------------------|--|-----------------------------------|--------|---|
| Jilin Chemical Industrial Company Limited ("JCIC") | 200,000,000 A shares | RMB 5.25 yuan per A share | 200,000,000 A shares as of December 31, 2007 | RMB 3,862 as of December 31, 2007 | 100.00 | JCIC w from t Stock Februa JCIC w from t Exchan Kong L New Yo Exchan 23, 20 15, 20 respec 2007, Admini Indust approv deregis incorp |
| Liaohe Jinma Oilfield Company Limited ("LJOCL") | 200,000,000 A shares | RMB 8.80 yuan per A share | 200,000,000 A shares as of June 30, 2007 | RMB 1,763 as of December 31, 2007 | 100.00 | LJOCL from t Stock Januar In May Liaoni for In Commer LJOCL' as an compan |

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

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PETROCHINA COMPANY LIMITED

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(Amounts in millions unless otherwise stated)

20 ADVANCE OPERATING LEASE PAYMENTS

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

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

21 INTANGIBLE AND OTHER ASSETS

GROUP

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

COMPANY

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

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

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PETROCHINA COMPANY LIMITED

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

22 INVENTORIES

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

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

23 ACCOUNTS RECEIVABLE

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

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

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

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

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

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PETROCHINA COMPANY LIMITED

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

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

24 PREPAID EXPENSES AND OTHER CURRENT ASSETS

| | GROUP | | COMPANY | |
|----------------------------------|----------|----------|----------|----------|
| | DECEMBER | DECEMBER | DECEMBER | DECEMBER |
| | 31, 2007 | 31, 2006 | 31, 2007 | 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Other receivables | 9,329 | 7,083 | 6,210 | 4,957 |
| Amounts due from related parties | | | | |
| - Subsidiaries | -- | -- | 12,997 | 7,890 |

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| | | | | |
|--------------------------------|---------|---------|---------|---------|
| - Other | 19,556 | 15,925 | 14,713 | 9,223 |
| Advances to suppliers | 10,720 | 6,087 | 8,258 | 3,485 |
| | ----- | ----- | ----- | ----- |
| | 39,605 | 29,095 | 42,178 | 25,555 |
| Less: Provision for impairment | (4,079) | (6,506) | (2,121) | (3,960) |
| | ----- | ----- | ----- | ----- |
| | 35,526 | 22,589 | 40,057 | 21,595 |
| Prepaid expenses | 304 | 326 | 269 | 190 |
| Other current assets | 188 | 366 | 188 | 267 |
| | ----- | ----- | ----- | ----- |
| | 36,018 | 23,281 | 40,514 | 22,052 |
| | ===== | ===== | ===== | ===== |

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

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

25 NOTES RECEIVABLE

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

26 CASH AND CASH EQUIVALENTS

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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27 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Trade payables | 40,447 | 22,490 | 17,892 | 10,529 |
| Advances from customers | 9,846 | 9,310 | 8,331 | 6,980 |
| Salaries and welfare payable | 11,585 | 8,844 | 10,751 | 7,634 |
| Accrued expenses | 5 | 10 | 3 | 9 |
| Dividends payable by subsidiaries to minority shareholders | 67 | 60 | -- | -- |
| Interest payable | 65 | 3 | 58 | 3 |
| Construction fee and equipment cost payables | 30,784 | 28,349 | 25,363 | 21,390 |
| One-time employee housing remedial payment payable | 221 | 933 | 218 | 933 |
| Amounts due to related parties | | | | |

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| | | | | |
|----------------|---------|---------|---------|---------|
| - Subsidiaries | -- | -- | 33,227 | 30,428 |
| - Other | 40,334 | 35,273 | 28,470 | 30,842 |
| Other payables | 10,999 | 14,910 | 7,666 | 11,252 |
| | ----- | ----- | ----- | ----- |
| | 144,353 | 120,182 | 131,979 | 120,000 |
| | ===== | ===== | ===== | ===== |

Other payables consist primarily of customer deposits.

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

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

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

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PETROCHINA COMPANY LIMITED

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28 BORROWINGS

(A) SHORT-TERM BORROWINGS

| | GROUP | | COMPANY | |
|-------------------------------------|----------|----------|----------|----------|
| | DECEMBER | DECEMBER | DECEMBER | DECEMBER |
| | 31, 2007 | 31, 2006 | 31, 2007 | 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Bank loans | | | | |
| - secured | 320 | 23 | -- | -- |
| - unsecured | 18,363 | 14,812 | 13,907 | 10,611 |
| Loans from a fellow CNPC subsidiary | 50 | 320 | 3,990 | -- |
| Other | 1 | 1 | 1 | 1 |
| | ----- | ----- | ----- | ----- |
| | 18,734 | 15,156 | 17,898 | 10,612 |

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| | | | | |
|---|--------|--------|--------|--------|
| Current portion of long-term borrowings | 12,200 | 20,607 | 9,029 | 17,064 |
| | ----- | ----- | ----- | ----- |
| | 30,934 | 35,763 | 26,927 | 27,676 |
| | ===== | ===== | ===== | ===== |

(B) LONG-TERM BORROWINGS

| | INTEREST RATES AND FINAL MATURITIES | GROUP | | COMPAN |
|---|--|-------------------|-------------------|-------------------|
| | | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 |
| | | RMB | RMB | RMB |
| RENMINBI - DENOMINATED BORROWINGS: | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Majority floating interest rates ranging from 6.16% to 6.80% per annum as of December 31, 2007, with maturities through 2022 | 6,720 | 8,390 | 3,820 |
| Bank loans for working capital | Floating interest rates ranging from 5.67% to 6.89% per annum as of December 31, 2007, with maturities through 2012 | 6,030 | 6,000 | 6,000 |
| Loans from a fellow CNPC subsidiary for the development of oil fields and construction of refining plants | Floating interest rates ranging from 4.46% to 5.76% per annum as of December 31, 2007, with maturities through 2032 | 19,862 | 16,782 | 19,862 |
| Working capital loans from a fellow CNPC subsidiary | Fixed interest rate at 4.61% per annum as of December 31, 2007, with maturities through 2008 | 70 | 4,130 | 70 |
| Working capital loans | Fixed interest rate at 6.32% per annum as of December 31, 2007, with no fixed repayment terms | 5 | 5 | 5 |
| Corporate debenture for the development of oil fields and construction of refining plants | Fixed interest rate at 4.50% per annum as of December 31, 2007, with maturities through 2007 | -- | 1,365 | -- |
| Corporate debenture for the development of oil and gas properties | Fixed interest rates ranging from 3.76% to 4.11% per annum as of December 31, 2007, with maturities through 2013 | 3,500 | 3,523 | 3,500 |

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| | INTEREST RATES AND FINAL MATURITIES | GROUP | | COMPAN |
|---|--|-------------------|-------------------|-------------------|
| | | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 |
| | | RMB | RMB | RMB |
| US DOLLAR - DENOMINATED BORROWINGS: | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rates ranging from zero to 8.66% per annum as of December 31, 2007, with maturities through 2038 | 403 | 969 | 403 |
| Bank loans for the development of oil fields and construction of refining plants | Floating interest rates ranging from 5.10% to 7.50% per annum as of December 31, 2007, with maturities through 2014 | 4,927 | 3,589 | 498 |
| Bank loans for working capital | Floating interest rates ranging from LIBOR plus 0.30% to LIBOR plus 2.50% per annum as of December 31, 2007, with maturities through 2010 | 2,630 | 1,326 | 2,556 |
| Bank loans for acquisition of overseas oil and gas properties | Floating interest rate at LIBOR plus 0.55% per annum as of December 31, 2007, with maturities through 2009 | 821 | 1,368 | -- |
| Loans from a fellow CNPC subsidiary for the development of oil fields and construction of refining plants | Floating interest rates ranging from LIBOR minus 0.25% to LIBOR plus 0.50% per annum as of December 31, 2007, with maturities through 2020 | 4,171 | 4,481 | 4,171 |
| Loans from a fellow CNPC subsidiary for working capital | Floating interest rate at LIBOR plus 0.60% per annum as of December 31, 2007, with maturities through 2008 | 329 | 1,471 | -- |
| Loans for the development of oil fields and construction of refining plants | Fixed interest rate at 1.55% per annum as of December 31, 2007, with maturities through 2022 | 404 | 462 | 404 |
| Loans for working capital | Majority floating interest rate at LIBOR plus 0.35% per annum as of December 31, | 609 | 650 | -- |

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| | | | | |
|---|--|-----|-----|----|
| | 2007, with maturities through 2008 | | | |
| Corporate debenture for the development of oil fields and construction of refining plants | Fixed interest rate at 3.00% per annum as of December 31, 2007, with maturities through 2019 | 335 | 353 | -- |

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PETROCHINA COMPANY LIMITED

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| INTEREST RATES AND FINAL MATURITIES | GROUP | | COMPAN | |
|--|--|-------------------|-------------------|-----|
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 | |
| | RMB | RMB | RMB | |
| Corporate debenture for the development of oil and gas properties | Fixed interest rate at 9.50% per annum as of December 31, 2007, with maturities through 2011 | 730 | 817 | -- |
| Corporate debenture for the development of oil and gas properties | Fixed interest rate at 15.00% per annum as of December 31, 2007, with maturities through 2008 | 58 | 179 | -- |
| JAPANESE YEN -DENOMINATED BORROWINGS: | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rates ranging from 2.42% to 4.10% per annum as of December 31, 2007, with maturities through 2010 | 37 | 75 | 37 |
| EURO - DENOMINATED BORROWINGS: | | | | |
| Bank loans for the development of oil fields and construction of refining plants | Fixed interest rates ranging from 2.00% to 2.30% per annum as of December 31, 2007, with maturities through 2023 | 247 | 257 | 247 |
| BRITISH POUND - DENOMINATED BORROWINGS: | | | | |
| Bank loans for the | Fixed interest rate at | -- | 49 | -- |

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development of oil fields 2.85% per annum as of
and construction of refining December 31, 2007,
plants with maturities
through 2007

| | | | | |
|---|----------|----------|---------|----|
| Total long-term borrowings | 51,888 | 56,241 | 41,573 | |
| Less: Current portion of long-term borrowings | (12,200) | (20,607) | (9,029) | (1 |
| | 39,688 | 35,634 | 32,544 | |

For loans denominated in RMB with floating interest rates, the interest rates are re-set annually on the respective anniversary dates based on interest rates announced by the People's Bank of China. For loans denominated in currencies other than RMB with floating interest rates, the interest rates are re-set quarterly or semi-annually as stipulated in the respective agreements. Other loans represent loans from independent third parties other than banks. Interest free loans amounted to RMB 60 (2006: RMB 68) at December 31, 2007.

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

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

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

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

| | GROUP | | COMPANY | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | CARRYING AMOUNTS | | | |
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Bank loans | 21,815 | 22,023 | 13,561 | 13,981 |
| Loans from a fellow CNPC subsidiary | 24,432 | 26,864 | 24,103 | 25,393 |
| Corporate debentures | 4,623 | 6,237 | 3,500 | 4,888 |
| Other | 1,018 | 1,117 | 409 | 467 |
| | ----- | ----- | ----- | ----- |
| | 51,888 | 56,241 | 41,573 | 44,729 |
| | ===== | ===== | ===== | ===== |

| | GROUP | | COMPANY | |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | FAIR VALUES | | | |
| | DECEMBER 31, 2007 | DECEMBER 31, 2006 | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Bank loans | 21,580 | 21,858 | 13,342 | 13,839 |
| Loans from a fellow CNPC subsidiary | 24,428 | 26,861 | 24,099 | 25,389 |
| Corporate debentures | 4,104 | 5,852 | 2,981 | 4,449 |
| Other | 883 | 997 | 274 | 347 |
| | ----- | ----- | ----- | ----- |
| | 50,995 | 55,568 | 40,696 | 44,024 |
| | ===== | ===== | ===== | ===== |

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The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the balance sheet dates. Such discount rates ranged from 0.81% to 7.71% per annum as of December 31, 2007 (2006: 0.53% to 6.54%) depending on the type of the borrowings. The carrying amounts of short-term borrowings approximate their fair value.

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

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follows:

| BANK LOANS | GROUP | | COMPANY | |
|---------------------------|----------|----------|----------|----------|
| | DECEMBER | DECEMBER | DECEMBER | DECEMBER |
| | 31, 2007 | 31, 2006 | 31, 2007 | 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Within one year | 5,861 | 11,575 | 3,808 | 9,081 |
| Between one to two years | 424 | 6,781 | 242 | 3,765 |
| Between two to five years | 12,322 | 1,415 | 9,005 | 527 |
| After five years | 3,208 | 2,252 | 506 | 608 |
| | 21,815 | 22,023 | 13,561 | 13,981 |
| | ===== | ===== | ===== | ===== |

| LOANS OTHER THAN BANK LOANS | GROUP | | COMPANY | |
|-----------------------------|----------|----------|----------|----------|
| | DECEMBER | DECEMBER | DECEMBER | DECEMBER |
| | 31, 2007 | 31, 2006 | 31, 2007 | 31, 2006 |
| | RMB | RMB | RMB | RMB |
| Within one year | 6,339 | 9,032 | 5,221 | 7,983 |
| Between one to two years | 5,330 | 5,016 | 5,148 | 3,782 |
| Between two to five years | 7,576 | 9,034 | 7,149 | 8,253 |
| After five years | 10,828 | 11,136 | 10,494 | 10,730 |
| | 30,073 | 34,218 | 28,012 | 30,748 |
| | ===== | ===== | ===== | ===== |

29 SHARE CAPITAL

| | GROUP AND COMPANY | |
|------------------------------------|-------------------|----------|
| | DECEMBER | DECEMBER |
| | 31, 2007 | 31, 2006 |
| | RMB | RMB |
| Registered, issued and fully paid: | | |
| State-owned shares | -- | 157,922 |
| A Shares | 161,922 | -- |
| H shares | 21,099 | 21,099 |
| | 183,021 | 179,021 |
| | ===== | ===== |

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| NUMBER OF SHARES OF THE COMPANY (MILLIONS) | 2007 | 2006 |
|--|---------|---------|
| Beginning balance | 179,021 | 179,021 |
| Issuance of shares | 4,000 | -- |
| Ending balance | 183,021 | 179,021 |
| | ===== | ===== |

In accordance with the Restructuring Agreement between CNPC and the Company effective as of November 5, 1999, the Company issued 160 billion state-owned shares in exchange for the assets and liabilities transferred to the Company by CNPC. The 160 billion state-owned shares were the initial registered capital of the Company with a par value of RMB1.00 yuan per share.

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

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

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

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

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

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

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30 RESERVES

| | GROUP | | COMPANY | |
|---|----------|----------|----------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | RMB | RMB | RMB | RMB |
| REVALUATION RESERVE | | | | |
| Beginning balance | 79,946 | 79,946 | 79,946 | 79,946 |
| Ending balance | 79,946 | 79,946 | 79,946 | 79,946 |
| CAPITAL RESERVE | | | | |
| Beginning balance | (8,881) | (8,881) | (11,508) | (11,508) |
| Issuance of shares (Note 29) | 62,243 | -- | 62,243 | -- |
| Ending balance | 53,362 | (8,881) | 50,735 | (11,508) |
| STATUTORY COMMON RESERVE FUND (note a) | | | | |
| Beginning balance | 89,928 | 48,736 | 78,828 | 41,301 |
| Transfer from retained earnings | 12,768 | 13,355 | 12,768 | 13,355 |
| Transfer from Statutory Common Welfare Fund | -- | 27,837 | -- | 24,172 |
| Ending balance | 102,696 | 89,928 | 91,596 | 78,828 |
| STATUTORY COMMON WELFARE FUND (note b) | | | | |
| Beginning balance | -- | 27,837 | -- | 24,172 |
| Transfer from retained earnings | -- | -- | -- | -- |
| Transfer to Statutory Common Reserve Fund | -- | (27,837) | -- | (24,172) |
| Ending balance | -- | -- | -- | -- |
| CURRENCY TRANSLATION DIFFERENCES | | | | |
| Beginning balance | (570) | (379) | -- | -- |
| Currency translation differences | (771) | (191) | -- | -- |
| Ending balance | (1,341) | (570) | -- | -- |
| OTHER RESERVES | | | | |
| Beginning balance | (16,859) | (14,703) | (6,859) | (4,703) |
| Purchase of minority interest in subsidiaries (Note 19) | (113) | (2,156) | (117) | (2,156) |
| Fair value gain of available-for-sale financial assets | 261 | -- | 260 | -- |
| Ending balance | (16,711) | (16,859) | (6,716) | (6,859) |
| | 217,952 | 143,564 | 215,561 | 140,407 |
| | ===== | ===== | ===== | ===== |

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

PETROCHINA COMPANY LIMITED

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

(b) Pursuant to the Company Law of the PRC revised on October 27, 2005 and carried out as of January 1, 2006, the Company is no longer required to allocate its net profit to the Statutory Common Welfare Fund from January 1, 2006. In accordance with the Circular on Accounting Treatment Following the Implementation of Company Law issued by the Ministry of Finance of the PRC on March 15, 2006, the Company transferred the Statutory Common Welfare Fund balance as at December 31, 2005 to the Statutory Common Reserve Fund.

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

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

31 DEFERRED TAXATION

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

The movements in the deferred taxation account are as follows:

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

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Deferred tax balances are attributable to the following items:

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

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

32 ASSET RETIREMENT OBLIGATIONS

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

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

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

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33 CASH FLOWS FROM OPERATING ACTIVITIES

| | NOTES | 2007 | 2006 |
|---|-------|----------|----------|
| | ----- | ----- | ----- |
| | | RMB | RMB |
| PROFIT FOR THE YEAR | | 155,229 | 149,300 |
| Adjustments for: | | | |
| Taxation | 12 | 49,152 | 49,700 |
| Depreciation, depletion and amortisation | | 66,625 | 61,300 |
| Capitalised exploratory costs charged to expense | 16 | 9,161 | 9,400 |
| Share of profit of associates and jointly controlled entities | | (6,997) | (2,200) |
| Reversal of provision for impairment of receivables, net | 7 | (2,353) | (3,000) |
| Write down in inventories, net | 7 | 55 | 1,000 |
| Impairment of available-for-sale financial assets, net | 7 | -- | |
| Impairment of investments in associates and jointly controlled entities | | 5 | |
| Loss on disposal of property, plant and equipment | 7 | 1,808 | 1,700 |
| (Gain)/Loss on disposal of intangible and other assets | | (2) | 1,000 |
| Profit on disposal of investments in associates and jointly controlled entities | 17 | (320) | (1,000) |
| Profit on disposal of available-for-sale financial assets | 18 | (142) | |
| Dividend income | 18 | (111) | (2,000) |
| Interest income | | (1,990) | (2,000) |
| Interest expense | 10 | 3,595 | 3,200 |
| Advance payments on long-term operating leases | | (4,803) | (5,600) |
| Changes in working capital: | | | |
| Accounts receivable and prepaid expenses and other current assets | | (16,498) | (3,100) |
| Inventories | | (12,042) | (13,400) |
| Accounts payable and accrued liabilities | | 19,935 | 5,300 |
| CASH GENERATED FROM OPERATIONS | | 260,307 | 253,600 |
| Interest received | | 1,962 | 1,900 |
| Interest paid | | (4,154) | (3,700) |
| Income taxes paid | | (54,367) | (53,700) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | | 203,748 | 198,100 |

34 PENSIONS

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

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4,645).

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35 CONTINGENT LIABILITIES

(A) BANK AND OTHER GUARANTEES

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

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

(B) ENVIRONMENTAL LIABILITIES

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

(C) LEGAL CONTINGENCIES

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

(D) LEASING OF ROADS, LAND AND BUILDINGS

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

- CNPC will use its best endeavours to obtain formal land use right certificates to replace the entitlement certificates in relation to the 28,649 parcels of land which were leased or transferred to the

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Company from CNPC, within one year from August, September and October 1999 when the relevant entitlement certificates were issued;

- CNPC will complete, within one year from November 5, 1999, the necessary governmental procedures for the requisition of the collectively-owned land on which 116 service stations owned by the Company are located; and
- CNPC will obtain individual building ownership certificates in the name of the Company for all of the 57,482 buildings transferred to the Company by CNPC, before November 5, 2000.

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As at December 31, 2007, CNPC had obtained formal land use right certificates in relation to 27,554 out of the above-mentioned 28,649 parcels of land and some building ownership certificates for the above-mentioned buildings, but has completed none of the necessary governmental procedures for the above-mentioned service stations located on collectively-owned land. The Directors of the Company confirm that the use of and the conduct of relevant activities at the above-mentioned parcels of land, service stations and buildings are not affected by the fact that the relevant land use right certificates or individual building ownership certificates have not been obtained or the fact that the relevant governmental procedures have not been completed. In management's opinion, the outcome of the above events may not have a material adverse effect on the financial position of the Group.

(E) GROUP INSURANCE

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

36 COMMITMENTS

(A) OPERATING LEASE COMMITMENTS

Operating lease commitments of the Group are mainly for leasing of land and buildings and equipment. Leases range from one to 50 years and usually do not contain renewal options. Future minimum lease payments as of December 31, 2007 and 2006 under non-cancellable operating leases are as follows:

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|------------|-------------------|-------------------|
| | ----- RMB | ----- RMB |
| First year | 3,394 | 3,099 |

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| | | |
|-------------|--------|--------|
| Second year | 3,077 | 2,749 |
| Third year | 2,927 | 2,714 |
| Fourth year | 3,322 | 3,040 |
| Fifth year | 2,650 | 3,102 |
| Thereafter | 79,025 | 80,076 |
| | ----- | ----- |
| | 94,395 | 94,780 |
| | ===== | ===== |

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(B) CAPITAL COMMITMENTS

| | DECEMBER 31, 2007 | DECEMBER 31, 2006 |
|---------------------------------|-------------------|-------------------|
| | ----- | ----- |
| | RMB | RMB |
| Contracted but not provided for | | |
| Oil and gas properties | 26 | 273 |
| Equipment and machinery | 11,345 | 8,658 |
| Other | 250 | 262 |
| | ----- | ----- |
| | 11,621 | 9,193 |
| | ===== | ===== |

(C) EXPLORATION AND PRODUCTION LICENSES

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

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

| | DECEMBER 31, 2007 |
|------|-------------------|
| | ----- |
| | RMB |
| 2008 | 906 |
| 2009 | 906 |
| 2010 | 906 |
| 2011 | 906 |
| 2012 | 906 |

37 MAJOR CUSTOMERS

The Group's major customers are as follows:

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| | 2007 | | 2006 | |
|--|---------|--------------------------------|---------|--------------------------------|
| | REVENUE | PERCENTAGE TO TOTAL REVENUE | REVENUE | PERCENTAGE TO TOTAL REVENUE |
| | RMB | % | RMB | % |
| China Petroleum & Chemical Corporation | 50,292 | 6 | 44,028 | 6 |
| CNPC and its subsidiaries | 31,325 | 4 | 27,714 | 4 |
| | ----- | --- | ----- | --- |
| | 81,617 | 10 | 71,742 | 10 |
| | ===== | === | ===== | === |

38 RELATED PARTY TRANSACTIONS

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

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

The Company and CNPC entered into a Comprehensive Products and Services Agreement on March 10, 2000 for a range of products and services which may be required and requested by either party; a Land Use Rights Leasing Contract under which CNPC leases 42,476 parcels of land located throughout the PRC to the Company; and a Buildings Leasing Contract under which CNPC leases 191 buildings located throughout the PRC to the Company.

The terms of the current Comprehensive Products and Services Agreement were amended in 2005 and the agreement is effective through December 31, 2008. The products and services to be provided by the CNPC Group to the Company under the Comprehensive Products and Services Agreement include construction and technical services, production services, supply of material services, social services, ancillary services and financial services. The products and services are provided in accordance with (1) state-prescribed prices; or (2) where there is no state-prescribed price, relevant market prices; or (3) where neither (1) nor (2) is applicable, actual cost incurred; or the agreed contractual price, being the actual cost plus a margin of not more than 15% for certain construction and technical services, and 3% for all other types of services.

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

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

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

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(A) BANK DEPOSITS

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

| | | YEAR ENDED DECEMBER 31 | |
|---|------|---------------------------|-------|
| | NOTE | 2007 | 2006 |
| | ---- | ----- | ----- |
| | | RMB | RMB |
| Interest income from bank deposits | | | |
| CP Finance | (i) | 159 | 81 |
| State-controlled banks and other financial institutions | | 1,024 | 1,804 |
| | | ----- | ----- |
| | | 1,183 | 1,885 |
| | | ===== | ===== |

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

(B) SALES OF GOODS AND SERVICES

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

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PETROCHINA COMPANY LIMITED

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

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

| | YEAR ENDED | |
|--------------------------------------|-------------|-------|
| | DECEMBER 31 | |
| | 2007 | 2006 |
| | RMB | RMB |
| Sales of services | | |
| - CNPC and its subsidiaries | 3,418 | 2,007 |
| - Other state-controlled enterprises | 8,497 | 7,761 |
| | 11,915 | 9,768 |
| | ===== | ===== |

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

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(C) PURCHASES OF GOODS AND SERVICES

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

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in millions unless otherwise stated)

- (i) Purchases of goods principally represent the purchases of raw materials, spare parts and low cost consumables at market prices.
- (ii) Under the Comprehensive Products and Services Agreement entered into between CNPC and the Company, certain construction and technical services provided by CNPC are charged at cost plus an additional margin of not more than 15%, including exploration and development services and oilfield construction services.
- (iii) Direct costs for exploration and development services comprise geophysical survey, drilling, well cementing, logging and well testing.
- (iv) The fees paid for other construction and technical services comprise fees for construction of refineries and chemical plants and technical services in connection with oil and gas exploration and production activities such as oilfield construction, technology research, engineering and design, etc..
- (v) The fees paid for production services comprise fees for the repair of machinery, supply of water, electricity and gas at the state-prescribed prices, provision of services such as communications, transportation, fire fighting, asset leasing, environmental protection and sanitation, maintenance of roads, manufacture of replacement parts and machinery at cost or market prices.

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- (vi) These represent expenditures for social welfare and support services which are charged at cost.
- (vii) Ancillary service charges represent mainly fees for property management, the provision of training centers, guesthouses, canteens, public shower rooms, etc., at market prices.
- (viii) CNPC purchases materials on behalf of the Company and charges commission thereon. The commission is calculated at rates ranging from 1% to 5% of the goods purchased.
- (ix) Purchases of services from other state-controlled enterprises principally represent the purchases of the construction and technical services at market prices.

(D) PURCHASES OF ASSETS

| | YEAR ENDED | |
|--|-------------|-------|
| | DECEMBER 31 | |
| | 2007 | 2006 |
| | RMB | RMB |
| Purchases of assets | | |
| Associates and jointly controlled entities | -- | 2 |
| CNPC and its subsidiaries | 2,395 | 1,795 |
| Other state-controlled enterprises | 5,840 | 6,617 |
| | ----- | ----- |
| | 8,235 | 8,414 |
| | ===== | ===== |

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

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PETROCHINA COMPANY LIMITED

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

(E) YEAR-END BALANCES ARISING FROM SALES/PURCHASES OF GOODS/SERVICES/ASSETS

| | DECEMBER 31 |
|--|-------------|
| | ----- |
| | RMB |
| Accounts receivable from related parties at the end of the year: | |
| Associates and jointly controlled entities | 296 |
| Fellow subsidiaries (CNPC Group) | 3,796 |
| Other state-controlled enterprises | 1,910 |
| | ----- |
| | 6,002 |

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| | |
|---|--------|
| Less: Provision for impairment | |
| Associates and jointly controlled entities | -- |
| Fellow subsidiaries (CNPC Group) | (189) |
| Other state-controlled enterprises | (708) |
| | ----- |
| | (897) |
| | ----- |
| | 5,105 |
| | ===== |
| Prepayments and other receivables from related parties at the end of the year: | |
| Associates and jointly controlled entities | 2,412 |
| Parent (CNPC) | -- |
| Fellow subsidiaries (CNPC Group) | 10,335 |
| Other state-controlled enterprises | 6,809 |
| | ----- |
| | 19,556 |
| Less: Provision for impairment | |
| Associates and jointly controlled entities | (39) |
| Fellow subsidiaries (CNPC Group) | (22) |
| Other state-controlled enterprises | (79) |
| | ----- |
| | (140) |
| | ----- |
| | 19,416 |
| | ===== |
| Accounts payable and accrued liabilities to related parties at the end of the year: | |
| Associates and jointly controlled entities | 117 |
| Parent (CNPC) | 922 |
| Fellow subsidiaries (CNPC Group) | 32,154 |
| Other state-controlled enterprises | 7,141 |
| | ----- |
| | 40,334 |
| | ===== |

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PETROCHINA COMPANY LIMITED

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

| | YEAR ENDED | |
|--|-------------|------|
| | DECEMBER 31 | |
| | 2007 | 2006 |
| | ---- | ---- |
| | RMB | RMB |
| Net changes in provision for impairment of accounts receivable from related parties charged/(credited) to profit and loss account: | | |
| Associates and jointly controlled entities | (5) | 5 |
| Fellow subsidiaries (CNPC Group) | (32) | (11) |
| Other state-controlled enterprises | -- | (52) |
| | ---- | ---- |
| | (37) | (58) |
| | ===== | ==== |
| Net changes in provision for impairment of prepayments and other receivables from related parties charged/(credited) to profit and loss account: | | |

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| | | |
|--|-------|------|
| Associates and jointly controlled entities | (173) | (20) |
| Fellow subsidiaries (CNPC Group) | 18 | (32) |
| Other state-controlled enterprises | (218) | 12 |
| | ---- | --- |
| | (373) | (40) |
| | ==== | === |

(F) LEASES

| | NOTES | YEAR ENDED | |
|---|-------|-------------|-------|
| | | DECEMBER 31 | |
| | | 2007 | 2006 |
| | | RMB | RMB |
| Advance operating lease payments paid to related parties: | (i) | | |
| Parent (CNPC) | | -- | -- |
| Other state-controlled enterprises | | 88 | 49 |
| | | ----- | ----- |
| | | 88 | 49 |
| | | ===== | ===== |
| Other operating lease payments paid to related parties: | | | |
| Parent (CNPC) | (ii) | 2,292 | 2,276 |
| Other state-controlled enterprises | | 21 | 16 |
| | | ----- | ----- |
| | | 2,313 | 2,292 |
| | | ===== | ===== |

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

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

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

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(G) LOANS

| LOANS TO RELATED PARTIES ----- | YEAR ENDED DECEMBER 31 | |
|-----------------------------------|------------------------|-------|
| | 2007 | 2006 |
| | RMB | RMB |
| Loans to associates: | | |
| Beginning of the year | 1,800 | 1,640 |
| Loans advanced during year | 366 | 1,034 |
| Loans repayments received | (322) | (884) |
| Interest charged | 129 | 154 |
| Interest received | (120) | (144) |
| | ----- | ----- |
| End of the year | 1,853 | 1,800 |
| | ===== | ===== |

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

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

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

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End of the year

| | |
|-------|-------|
| ----- | ----- |
| 5 | 5 |
| ===== | ===== |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in millions unless otherwise stated)

- (i) The loans from CP Finance are mainly with interest rates ranging from 4.46% to 7.47% per annum as of December 31, 2007 (2006: 4.46% to 6.06%), with maturities through 2032.
- (ii) The loans from state-controlled banks and other financial institutions are mainly with interest rates ranging from zero to 8.66% per annum as of December 31, 2007 (2006: zero to 8.66%), with maturities through 2038.
- (iii) The loans from other related parties are mainly with interest rate at 6.32% per annum as of December 31, 2007 (2006: 6.32%), and with no fixed repayment terms.

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

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

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

(H) KEY MANAGEMENT COMPENSATION

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

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

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

(I) CONTINGENT LIABILITIES

The Group disclosed in Note 35 its contingent liabilities arising from the guarantees made for related parties.

(J) COLLATERAL FOR BORROWINGS

The Group pledged time deposits with maturities over one year as collaterals with certain banks for the borrowings of subsidiaries and associates.

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

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PETROCHINA COMPANY LIMITED

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

39 SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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Operating segment information for the years ended December 31, 2007 and 2006 is presented below:

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PETROCHINA COMPANY LIMITED

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

PRIMARY REPORTING FORMAT - BUSINESS SEGMENTS

| YEAR ENDED DECEMBER 31, 2006 ----- | EXPLORATION AND PRODUCTION ----- RMB | REFINING AND MARKETING ----- RMB | CHEMICALS AND MARKETING ----- RMB | NATURAL GAS AND PIPELINE ----- RMB | OTHER ----- RMB |
|---|--|--|---|--|-----------------------|
| Turnover (including intersegment) | 421,340 | 543,299 | 82,791 | 38,917 | 1,000 |
| Less: Intersegment sales | (339,619) | (44,806) | (7,983) | (5,617) | (1,000) |
| Turnover from external customers | 81,721 | 498,493 | 74,808 | 33,300 | 0 |
| Depreciation, depletion and amortisation | (37,080) | (12,080) | (6,417) | (5,263) | (1,000) |
| Segment result | 232,404 | (5,206) | 8,208 | 9,470 | (3,000) |
| Other costs | (12,544) | (23,958) | (3,150) | (484) | (3,000) |
| Profit/(loss) from operations | 219,860 | (29,164) | 5,058 | 8,986 | (6,000) |
| Finance costs | | | | | |
| Share of profit of associates and jointly controlled entities | 1,889 | 333 | 38 | 1 | |
| Profit before taxation | | | | | |
| Taxation | | | | | |
| Profit for the year | | | | | |
| Interest income (including intersegment) | 4,853 | 1,471 | 634 | 157 | 7,000 |
| Less: Intersegment interest income | | | | | |
| Interest income from external entities | | | | | |
| Interest expense (including intersegment) | (5,043) | (3,790) | (679) | (1,614) | (4,000) |
| Less: Intersegment interest expense | | | | | |
| Interest expense to external entities | | | | | |
| Segment assets | 484,547 | 246,828 | 79,964 | 75,432 | 638,000 |
| Elimination of intersegment balances | | | | | |
| Investments in associates and jointly controlled entities | 27,127 | 5,587 | 153 | 20 | |
| Total assets | | | | | |
| Segment capital expenditure | | | | | |
| - for property, plant and equipment | 105,192 | 19,206 | 10,681 | 11,309 | 2,000 |
| Segment liabilities | 181,542 | 116,002 | 27,092 | 43,616 | 170,000 |

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Other liabilities
 Elimination of intersegment balances

 Total liabilities

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PETROCHINA COMPANY LIMITED

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

PRIMARY REPORTING FORMAT - BUSINESS SEGMENTS (CONTINUED)

| YEAR ENDED DECEMBER 31, 2007 ----- | EXPLORATION AND PRODUCTION ----- RMB | REFINING AND MARKETING ----- RMB | CHEMICALS AND MARKETING ----- RMB | NATURAL GAS AND PIPELINE ----- RMB | OTH ----- RM |
|--|--|--|---|--|--------------------|
| Turnover (including intersegment) | 468,175 | 670,844 | 102,718 | 50,066 | 1, |
| Less: Intersegment sales | (376,451) | (63,766) | (11,009) | (6,610) | (|
| Turnover from external customers | 91,724 | 607,078 | 91,709 | 43,456 | 1, |
| Depreciation, depletion and amortisation | (42,945) | (11,184) | (5,923) | (5,926) | (|
| Segment result | 220,430 | 9,341 | 13,256 | 13,057 | (3, |
| Other costs | (13,843) | (30,021) | (5,425) | (562) | (2, |
| Profit/(loss) from operations | 206,587 | (20,680) | 7,831 | 12,495 | (6, |
| Finance costs | | | | | |
| Share of profit of associates and jointly controlled entities | 6,460 | 477 | 41 | 2 | |
| Profit before taxation | | | | | |
| Taxation | | | | | |
| Profit for the year | | | | | |
| Interest income (including intersegment) | 7,346 | 2,021 | 804 | 122 | 8, |
| Less: Intersegment interest income | | | | | |
| Interest income from external entities | | | | | |
| Interest expense (including intersegment) | (7,492) | (4,695) | (901) | (1,720) | (5, |
| Less: Intersegment interest expense | | | | | |
| Interest expense to external entities | | | | | |
| Segment assets | 548,895 | 274,435 | 94,976 | 80,252 | 819, |
| Elimination of intersegment balances | | | | | |
| Investments in associates and jointly controlled entities | 21,339 | 4,973 | 138 | 17 | |
| Total assets | | | | | |

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| | | | | | |
|--------------------------------------|---------|---------|--------|--------|------|
| Segment capital expenditure | | | | | |
| - for property, plant and equipment | 134,256 | 26,546 | 8,165 | 11,003 | 1, |
| Segment liabilities | 225,483 | 145,263 | 33,389 | 39,790 | 188, |
| Other liabilities | | | | | |
| Elimination of intersegment balances | | | | | |
| Total liabilities | | | | | |

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PETROCHINA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Amounts in millions unless otherwise stated)

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

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

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

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

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

Secondary reporting format - geographical segments

| YEAR ENDED DECEMBER 31, ----- | TURNOVER | | TOTAL ASSETS | | CAPITAL EXP |
|------------------------------------|----------|---------|--------------|---------|-------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 |
| | RMB | RMB | RMB | RMB | RMB |
| PRC | 807,706 | 665,267 | 979,124 | 811,919 | 171,510 |
| Other (Exploration and Production) | 27,331 | 23,711 | 81,007 | 60,244 | 10,073 |
| | ----- | ----- | ----- | ----- | ----- |
| | 835,037 | 688,978 | 1,060,131 | 872,163 | 181,583 |
| | ===== | ===== | ===== | ===== | ===== |

40 APPROVAL OF FINANCIAL STATEMENTS

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

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SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)

PETROCHINA COMPANY LIMITED

(Amounts in millions unless otherwise stated)

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

RESULTS OF OPERATIONS

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

CAPITALISED COSTS

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

=====

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

Costs Incurred in Property Acquisitions, Exploration and Development
Activities

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

PROVED RESERVE ESTIMATES

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

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed reserves are those reserves, which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves which are

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expected to be recovered from new wells on undrilled acreage or from existing wells where relatively major expenditure is required.

The Ministry of Land and Resources in China issues production licenses to applicants on the basis of the reserve reports approved by relevant authorities. Administrative rules issued by the State Council provide that the maximum term of a production license is 30 years. However, in accordance with a special approval from the State Council, the Ministry of Land and Resources issued production licenses effective from March 2000 to the Group for all of its crude oil and natural gas reservoirs with terms similar with the projected productive life of those reservoirs, ranging up to 55 years. Production licenses to be issued to the Group in the

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future will be subject to the 30-year limit unless additional special approvals can be obtained from the State Council. Each of the Group's production licenses is renewable upon application by the Group 30 days prior to expiration. Future oil and gas price increases may extend the productive lives of crude oil and natural gas reservoirs beyond the current terms of the relevant production licenses.

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

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

| | CRUDE OIL AND CONDENSATE ----- (MILLIONS OF BARRELS) | NATURAL G ----- (BILLIONS CUBIC FEET) |
|----------------------------------|--|--|
| Proved developed and undeveloped | | |
| Reserves at January 1, 2006 | 11,536 | 48,123 |
| Changes resulting from: | | |
| Revisions of previous estimates | 197 | 686 |
| Improved recovery | 81 | -- |
| Extensions and discoveries | 635 | 6,248 |
| Production | (831) | (1,588) |
| | ----- | ----- |
| Reserves at December 31, 2006 | 11,618 | 53,469 |
| Changes resulting from: | | |
| Revisions of previous estimates | 84 | (1,062) |
| Improved recovery | 79 | -- |

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| | | |
|--|--------|---------|
| Extensions and discoveries | 764 | 6,331 |
| Production | (839) | (1,627) |
| | ----- | ----- |
| Reserves at December 31, 2007 | 11,706 | 57,111 |
| | ===== | ===== |
| Proved developed reserves at: | | |
| December 31, 2006 | 9,185 | 22,564 |
| December 31, 2007 | 9,047 | 26,047 |
| Proportional interest in proved reserves of associates and jointly controlled entities at: | | |
| December 31, 2006 | 543 | 105 |
| December 31, 2007 | 141 | 79 |

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

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

STANDARDISED MEASURE

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

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

| | |
|--|-------------|
| | RMB |
| | ----- |
| At December 31, 2006 | |
| Future cash inflows from sales of oil and gas | 5,611,306 |
| Future production costs | (1,620,761) |
| Future development costs | (296,175) |
| Future income tax expense | (1,202,980) |
| | ----- |
| Future net cash flows | 2,491,390 |
| Discount at 10% for estimated timing of cash flows | (1,336,045) |
| | ----- |
| Standardised measure of discounted future net cash flows | 1,155,345 |
| | ===== |
| At December 31, 2007 | |

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| | |
|--|-------------|
| Future cash inflows from sales of oil and gas | 8,714,483 |
| Future production costs | (3,049,226) |
| Future development costs | (437,946) |
| Future income tax expense | (1,569,898) |
| | ----- |
| Future net cash flows | 3,657,413 |
| Discount at 10% for estimated timing of cash flows | (1,835,343) |
| | ----- |
| Standardised measure of discounted future net cash flows | 1,822,070 |
| | ===== |
| Share of standardised measure of discounted future net cash flows of associates and jointly controlled entities: | |
| At December 31, 2006 | 59,825 |
| At December 31, 2007 | 33,543 |

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

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

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

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

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BOARD OF DIRECTORS

| | | |
|--------------------------------------|----------------|-------------|
| Chairman: | Jiang Jiemin | |
| Executive Director: | Duan Wende | |
| Non-executive Directors: | Zheng Hu | Zhou Jiping |
| | Wang Yilin | Zeng Yukang |
| | Gong Huazhang | Jiang Fan |
| Independent Non-executive Directors: | Chee-Chen Tung | Liu Hongru |
| | Franco Bernabe | |
| Secretary to the Board of Directors: | Li Huaqi | |

SUPERVISORY COMMITTEE

| | | |
|--------------------------|--------------|--------------|
| Chairman: | Wang Fucheng | |
| Supervisors: | Wen Qingshan | Sun Xianfeng |
| | Zhang Jinzhu | Qin Gang |
| Independent Supervisors: | Li Yongwu | Wu Zhipan |

OTHER SENIOR MANAGEMENT

| | |
|----------------|--------------|
| Liao Yongyuan | Jia Chengzao |
| Hu Wenrui | Sun Longde |
| Shen Diancheng | Liu Hongbin |
| Zhou Mingchun | Li Hualin |
| Lin Aiguo | |

AUTHORISED REPRESENTATIVE Li Huaqi

AUDITORS

International Auditors
PricewaterhouseCoopers
Certified Public Accountants, Hong Kong
22nd Floor
Prince's Building
Central
Hong Kong

Domestic Auditors

PricewaterhouseCoopers Zhong Tian CPAs Company Limited
Certified Public Accountants, PRC
11th Floor PricewaterhouseCoopers Centre
202 Hu Bin Road
Shanghai 200021
PRC

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LEGAL ADVISERS TO THE COMPANY

as to Hong Kong law:

Clifford Chance
28th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

as to United States law:

Shearman & Sterling
12th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

as to PRC law:

King and Wood
40th Floor, Office Tower A, Beijing Fortune Plaza

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7 Dongsanhuan Zhonglu
Chaoyang District
Beijing 100020
PRC

HONG KONG REPRESENTATIVE OFFICE
Unit 3606
Tower 2 Lippo Centre
89 Queensway
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Hong Kong Registrars Limited
46/F Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China,
Head Office
55 Fuxingmennei Avenue
Xicheng District
Beijing, PRC

Bank of China, Head Office
1 Fuxingmennei Avenue
Xicheng District
Beijing, PRC

China Construction Bank
25 Finance Street
Xicheng District
Beijing, PRC

China Development Bank
25 Finance Street
Xicheng District
Beijing, PRC

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Bank of Communications, Beijing Branch
Tongtai Mansion, 33 Finance Street
Xicheng District
Beijing, PRC

CITIC Industrial Bank,
Headquarters Branch
A27 Finance Street
Xicheng District
Beijing, PRC

Agricultural Bank of China, Head Office
No. 23A, Fuxing Road
Haidian District
Beijing, PRC

The Hongkong and Shanghai
Banking Corporation
Limited Hong Kong Office
1 Queen's Road Central
Hong Kong

DEPOSITORY

The Bank of New York
P.O. Box 11258
Church Street Station
New York
NY 10286-1258

PUBLICATIONS

As required by the Securities Law of the United States, the Company will file an annual report on Form 20-F with the U.S. Securities and Exchange Commission ("SEC") on or before June 30, 2008. The annual report on Form 20-F contains a detailed description of the Company's businesses, operating results and financial conditions. Copies of the annual report and the Form 20-F

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submitted to the SEC will be made available at the following addresses:

PRC PetroChina Company Limited
16 Andelu Dongcheng District
Beijing 100011
PRC
Tel: (8610) 8488 6270
Fax: (8610) 8488 6260

Hong Kong PetroChina Company Limited
Unit 3606
Tower 2 Lippo Centre
89 Queensway
Hong Kong
Tel: (852) 2899 2010
Fax: (852) 2899 2390

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USA The Bank of New York
P.O. Box 11258
Church Street Station
New York, NY 10286 - 1258
USA
Calling from within the US (toll-free): 1-888-BNY-ADRS
International call: 1-201-680-6825
E-mail: shareowners@bankofny.com
Website: <http://www.stockbny.com>

Shareholders may also browse or download the annual report of the Company and the Form-20 filed with the SEC from the official website of the Company at www.petrochina.com.cn.

INVESTMENT INFORMATION FOR REFERENCE

Please contact our Hong Kong Representative Office for other information about the Company.

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DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the registered office of the Company upon requests by the relevant regulatory authorities and shareholders in accordance with the Articles of Association and the laws and regulations of the PRC:

1. The original of the annual report for 2007 signed by the Chairman of the Board.
2. The financial statements under the hand and seal of the Legal Representative, Chief Financial Officer, the Chief Accountant and the Person in Charge of the Accounting Department of the Company.
3. The original of the Financial Report of the Company under the seal of the Auditors and under the hand of Certified Public Accountants.

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4. The original copies of the documents and announcement of the Company published in the newspaper stipulated by the China Securities Regulatory Commission during the reporting period.

5. Copies of all Chinese and English announcements of the Company published in Hong Kong newspapers during the period of the annual report.

6. The Articles of Association of the Company.

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CONFIRMATION FROM THE DIRECTORS AND SENIOR MANAGEMENT

According to the relevant provisions and requirements of the Securities Law of the People's Republic of China and Measures for Information Disclosure of Companies Offering Shares to the Public promulgated by the China Securities Regulatory Commission, as the Board Directors and senior management of PetroChina Company Limited, we have carefully reviewed the annual report for 2007 and concluded that this annual report truly and objectively represents the business performance of the Company in 2007, it contains no false representations, misleading statements or material omissions and complies with the requirements of the China Securities Regulatory Commission and other relevant regulatory authorities.

Signatures of the Directors and Senior Management:

| | | | |
|--------------------------------------|----------------------------------|--------------------------------------|--------------------------------|
| /s/ Jiang Jiemin Jiang Jiemin | /s/ Duan Wende Duan Wende | /s/ Zheng Hu Zheng Hu | /s/ Zhou Jiping Zhou Jiping |
| /s/ Wang Yilin Wang Yilin | /s/ Zeng Yukang Zeng Yukang | /s/ Gong Huazhang Gong Huazhang | /s/ Jiang Fan Jiang Fan |
| /s/ Chee-Chen Tung Chee-Chen Tung | /s/ Liu Hongru Liu Hongru | /s/ Franco Bernabe Franco Bernabe | |
| /s/ Liao Yongyuan Liao Yongyuan | /s/ Jia Chengzao Jia Chengzao | /s/ Hu Wenrui Hu Wenrui | /s/ Sun Longde Sun Longde |
| /s/ Shen Diancheng Shen Diancheng | /s/ Liu Hongbin Liu Hongbin | /s/ Zhou Mingchun Zhou Mingchun | /s/ Li Hualin Li Hualin |
| /s/ Lin Aiguo Lin Aiguo | /s/ Li Huaiqi Li Huaiqi | | |

March 19, 2008

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

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