



## Financial Report

## Consolidated Balance Sheet

million RMB yuan

	2006	2007
<b>Current assets</b>		
Cash and cash equivalent	231,327.16	242,451.67
Tradable financial assets	729.74	333.09
Net bills and accounts receivable	48,074.01	52,668.89
Prepayments	19,735.89	22,875.48
Other accounts receivables	32,127.25	37,210.48
Inventories	120,191.65	143,409.37
Other current assets	29,513.11	22,492.84
<b>Total current assets</b>	<b>481,698.81</b>	<b>521,441.82</b>
<b>Fixed assets</b>		
Available-for-sale financial assets	21,468.78	24,581.52
Held-to-maturity investments	48,528.68	77,747.38
Long-term equity investments	34,069.54	34,138.37
Fixed assets-net value	357,154.41	388,092.16
Construction in progress	84,688.70	124,004.16
Oil and gas assets	302,093.16	351,878.68
Intangible assets	24,598.85	28,550.15
Other fixed assets (other long-term assets)	54,695.76	48,583.24
<b>Total fixed assets</b>	<b>927,297.88</b>	<b>1,077,575.66</b>
<b>Total Assets</b>	<b>1,408,996.69</b>	<b>1,599,017.48</b>
<b>Current Liabilities</b>		
Short-term Loans	23,214.66	27,137.65
Bills and accounts payable	123,874.45	151,363.08
Prepayments	22,137.57	20,230.14
Employee pay payable	58,236.06	34,852.65
Taxes payable	32,657.20	30,616.99
Other payables	49,198.05	62,120.66
Other current liabilities	56,005.36	34,157.41
<b>Total current liabilities</b>	<b>365,323.35</b>	<b>360,478.58</b>
<b>Non-current liabilities</b>		
Long-term loans	32,248.58	30,189.48
Estimated liabilities	20,220.50	27,892.83
Deferred income tax liabilities	12,904.61	12,698.82
Other non-current liabilities	12,549.99	8,648.55
<b>Total non-current liabilities</b>	<b>77,923.68</b>	<b>79,429.68</b>
<b>Total liabilities</b>	<b>443,247.03</b>	<b>439,908.26</b>

## Consolidated Balance Sheet (continued)

million RMB yuan

	2006	2007
<b>Owners (stockholders) equity</b>		
Paid-in capital (stock)	262,181.64	274,341.38
Capital reserves	224,136.10	272,738.04
Surplus reserves	89,555.32	100,652.62
Retained profits	298,073.65	392,609.68
Converted difference in Foreign Currency Statements	-1,260.59	-4,581.29
<b>Total owners' equity attributable to parent company</b>	<b>872,686.12</b>	<b>1,035,760.43</b>
Minority interests	93,063.54	123,348.79
<b>Total owners' equity</b>	<b>965,749.66</b>	<b>1,159,109.22</b>
<b>Total liabilities and owners' equity</b>	<b>1,408,996.69</b>	<b>1,599,017.48</b>

## Consolidated Profit Statement

million RMB yuan

	2006	2007
<b>Operating income</b>	<b>868,483.50</b>	<b>1,000,677.27</b>
Income from core business	868,325.52	1,000,086.21
Income from other businesses	157.98	591.06
Less: Operating cost	487,518.18	599,667.52
Cost of core-business	486,985.19	599,420.04
Cost of other businesses	532.99	247.48
Business tax and supertax	61,358.59	74,718.12
Sales expenses	40,175.65	47,128.54
Management expenses	70,670.29	75,877.12
Financial expenses	1,754.25	936.18
Loss on depreciation of assets	2,616.99	-108.24
Others	19,071.21	21,303.98
Plus: Income from change in fair value (Loss is presented with "-")	2.71	-5.99
Income from investments	5,061.65	12,480.26
<b>Operating profit</b>	<b>190,382.70</b>	<b>193,628.32</b>
Plus: Non-operating income	3,375.22	5,061.93
Less: Non-operating expense	7,118.06	6,710.35
<b>Total profit</b>	<b>186,639.86</b>	<b>191,979.90</b>
Less: Income tax expense	56,793.94	57,520.35
<b>Net profit</b>	<b>129,845.92</b>	<b>134,459.55</b>
Less: Loss and gain from minority	20,162.34	20,936.83
<b>Net profit attributable to owners' equity of the parent company</b>	<b>109,683.58</b>	<b>113,522.72</b>

Note: Data in 2006 have been adjusted in accordance with Accounting Standard for Business Enterprises.

## Notes to the Financial Statements

### A. Description of Principal Accounting Policies and Accounting Estimates

#### 1. Accounting standard and accounting system

CNPC followed the former Enterprise Accounting Standards and Accounting System for Business Enterprises in the prior year. Since January 1, 2007, it started to follow the Accounting Standard for Business Enterprises issued by the Ministry of Finance on February 15, 2006, and its supplemental provisions. According to the requirements of the Articles 5 -19 in Accounting Standards for Business Enterprises No. 38—Initial Implementation of Accounting Standards, the beginning amount in balance sheet and corresponding amount in income statement are prepared in accordance with retroactive adjustment principle.

#### 2. Fiscal year

The fiscal year starts on January 1 and ends on December 31 each calendar year.

#### 3. Standard accounting currency

The company adopts RMB yuan as currency used in bookkeeping.

#### 4. Accounting basis and valuation

Accounting is based on the accrual system. All assets are measured at historical cost, except for tradable financial assets and available-for-sale financial assets which are initially measured at fair value.

#### 5. Foreign currency accounting and conversion

##### (1) Foreign currency transaction

Our foreign currency transactions are converted into RMB yuan at the exchange rate published by China Foreign Exchange Trade System (CFETS) entrusted by the People's Bank of China on the day the transaction occurred; the monetary foreign currency assets and liabilities on the balance sheet date are converted into RMB yuan at the exchange rate published by China Foreign Exchange Trade System (CFETS) entrusted by the People's Bank of China on the same day. The

exchange gains and losses arising from these translations that are related to assets acquired and constructed are taken into the cost of the assets acquired and constructed before they reach their expected usable condition; those not related to assets acquired and constructed but occurred in the period of asset preparation are taken into general and administrative expenses of the current period; those occurred in the period of production and operating are taken into financial expenses of the current period. The non-monetary foreign currency assets at fair value are converted into RMB yuan at spot exchange rate on the day the fair value is determined, and the exchange difference is directly taken into the income statement of the current period as change in fair value.

##### (2) Conversion of financial statement in foreign currency

All asset and liability items presented in foreign currency balance sheet are converted into RMB yuan at spot exchange rate on the balance sheet date; the owner's equity other than undistributed profit is converted at spot exchange rate when occurred. Foreign income and expenses presented in the income statement are converted at annually average rate. The exchange difference arising from the conversions mentioned above is presented separately in owner's equity. The exchange difference arising from monetary foreign currency items materially invested in foreign business due to the change in exchange rate is also presented separately in owner's equity when preparing consolidated financial statements. When disposing foreign business, the related exchange difference is carried in proportion to the gains/losses of the period the business is disposed.

Foreign currency cash flow and the cash flow of foreign subsidiaries are converted at annually average exchange rate. The influence on cash from the change in exchange rate is presented separately in the Cash Flow Statement.

#### 6. Recognition of cash and cash equivalents

The cash presented in the Cash Flow Statement comprises cash in hand and the deposit available for payment from time to time. Cash equivalents presented in the Cash Flow Statement are short-term (mature within three month), highly liquid investments that are readily convertible into cash and almost have no risk of change in value.

## 7. Financial assets

(1) Financial assets are classified into following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, receivables and available-for-sale financial assets. The classification depends on the purpose and nature of the financial assets.

a. Financial assets at fair value through profit or loss are financial assets that are acquired for the purpose of selling in the near term, and are recorded as tradable financial assets in the Balance Sheet.

b. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the management of the company has the positive intent and ability to hold to maturity.

c. Receivables are non-derivative financial assets including bills receivable, accounts receivable, interests receivable, dividends receivable and other receivables with fixed or determinable payments that are not quoted in active market.

d. Available-for-sale financial assets include all non-derivative financial assets that are designated initially as available-for-sale or the financial assets that are not classified in any of the other three categories.

(2) Recognition and measurement of financial assets

Financial assets are initially recognized at fair value. For financial assets at fair value through profit or loss, the costs of acquisition are directly stated in profit and loss accounts. Transaction costs of other financial assets are initially recognized at fair value. A financial asset is derecognized when the rights to receive cash flow from the assets are expired, or the Company has transferred substantially all the risks and rewards of ownership of the financial assets to a third party.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value; the investments in equity instruments that are not quoted in active market and its fair value can not be measured reliably are measured at costs; receivables and held-to-maturity investments are measured at amortized cost using the effective interest method.

Changes in fair value of financial assets at fair value through profit or loss are recorded in profit/loss on changes in fair value; interests or cash

dividends from the assets held are recognized as income from investment; when disposed, the difference between its fair value and initially recognized amount is recognized as gain/loss on investment, and its gain/loss on changes in fair value are adjusted accordingly.

Changes in fair value of available-for-sale financial assets are recorded in owner's equity; interests are recorded in gain on investment using the effective interest method; cash dividends of available-for-sale investment in equity instruments are recorded in gains on investment when invested enterprises announce to distribute dividends; when disposed, the difference between acquisition cost and the carrying value less the accumulative amount of the changes in fair value originally recorded in the owner's equity is recorded in profit/loss on investment.

(3) Impairment of financial assets

An assessment of carrying value of financial assets, except for financial assets at fair value through profit or loss, is made at each balance sheet date to determine whether there is objective evidence of impairment. If there is an objective evidence of impairment of a financial asset, a provision for impairment is recognized. Where there is a substantial or non-temporary decrease in fair value of available-for-sale investment in equity instruments, the accumulated losses on decrease of fair value that are directly recorded in owner's equity before are recorded in losses on impairment. For available-for-sale investment in debt instruments with recognized loss on impairment, if its fair value is increased in a subsequent period and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized loss on impairment is reversed and recognized in the income statement. For available-for-sale investment in equity instruments with recognized loss on impairment, if its fair value is increased in a subsequent period and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized loss on impairment is reversed and recognized in the owner's equity. The losses on impairment of the investment in equity instruments that are not quoted in active market and its fair value can not be measured reliably are irreversible.

## 8. Receivables

(1) Bad debt is recognized when:

- a. The debtor is adjudged bankrupted or canceled in accordance with laws and regulations.
- b. The debtor is dead or declared missed or dead in accordance with laws and regulations.
- c. A lawsuit of the receivable is judged defeat by an executive court verdict from the People's Court or an written verdict, or the lawsuit is won, but the enforcement is judged terminated due to impossibility of performance.
- d. There is a severe natural disaster or contingency that caused discontinuance of business of the debtor and brought significant loss to the debtor, which makes him fail to repay the receivables by his assets (including insurance policy covered) within three years.

(2) The accounting method for calculating the reserve for bad debts: reserves for bad debts will be calculated by allowance method and recognized by individual judgment. The accounts receivable that are conclusively evidenced to be uncollectible will be presented as losses on bad debts and will be offset from the reserve for bad debts after approved through given procedures.

(3) Assignment, pledge and discount of receivables

When there is a financing activity through assignment, pledge and discount of receivable financial claim, the financial claim is recognized as pledged loan if the related contract stipulates that the company is obligated to perform the liability when the debtor fails to pay the debt at maturity; if the Company is not obligated to perform the liability, the financial claim is recognized as assignment, and the profit/loss on the assignment is recognized.

## 9. Inventories

- (1) Inventories comprise purchase, raw materials, packing materials, low-value consumption goods, work in progress and semi-finished goods etc.
- (2) Inventories are carried at the actual cost when acquired, using perpetual inventory method; actual cost of delivered or sold inventories are carried at weighted average.
- (3) Low-value consumption goods and packing materials are amortized

using one-off amortization method when they are put into use.

(4) Year-end inventories are carried at the lower of cost and net realizable value; Based on wall-to-wall inventory at the end of the period, provision for inventory write-down is retained for the estimated loss on contracted works and the part of the cost exceeded net realizable value of the inventories that are replaced, in part or in whole outdated, or their selling price is lower than cost. Provision for inventory write-down is retained for the difference between cost and net realizable value of inventories on the individual item basis. The net realizable value is expected selling price less estimated complete cost, selling cost and related tax.

## 10. Long-term equity investment

### (1) Measurement of long-term equity investment

For the combination of business under the same control, the carrying amount of the owner's equity of the combined business on the day of combination is recognized as the initial cost of the long-term equity investment. For the long-term equity investment obtained from combination of business under different control, the assets paid, liabilities occurred or assumed and the fair value of the equity securities issued on the combination day for acquiring the control of the combined business are recognized as cost on combination. And the cost on combination is recognized as initial cost of investment in the long-term equity investment.

Except for the long-term equity investment obtained from combination of business mentioned above, if a long-term equity investment is obtained through payment of cash, payment of non-monetary assets or issue of equity securities, its fair value is recognized as initial cost of long-term equity investment; if a long-term equity investment is obtained from debt reorganization, the fair value of the shares converted from financial claim is recognized as the initial cost of investment to the debtor; if a long-term equity investment is invested directly, the value agreed in investment contract is recognized as initial cost of the investment, in the event that the value agreed is unfair, the fair value of the equity invested is recognized as initial cost of investment. If an initial cost of a long-term equity investment is higher than the share of the fair value of the net assets that can be identified in the invested business, the initial cost of the long-term investment is not

adjusted; the difference between the initial cost and the share of the fair value is recorded in the income statement, and the cost of the long-term investment is adjusted accordingly.

#### (2) Measurement of long-term equity investment

Investment in subsidiary is the equity investment in a business practically controlled by the company. The investment in subsidiary is recognized using cost method, and is adjusted using equity method for the purpose of consolidated financial statements.

Investment in joint venture is the equity investment in a mutual control on a contracted commercial activity in which the sharing party agrees to share the control on the significant financial, production and operating decisions with the company. The investment in joint venture is recognized using equity method.

Investment in subsidiary is the equity investment in a business on which the company does significant influence. The investment in associate is recognized using equity method.

Long-term equity investment that is not quoted in active market and with undeterminable fair value and insignificant influence are recognized using cost method. For the long-term equity investment quoted in active market and with determinable fair value, if it is not quite influential, its fair value is reported in available-for-sale financial assets, and the change in fair value is taken into owner's equity.

#### (3) Provision for depreciation of long-term equity investment

At the end of the year, if the recoverable amount of a long-term investment is lower than its carrying value because that its market price is lower than its carrying value in the latest two years, the investment is suspended of trading for more than one year, the invested business suffered serious loss in the year, the amount of loss is more than 1/3 of net assets at the beginning of the year, the invested business run at a deficit in the latest two year, or the invested business is in liquidation, reorganization or other business discontinuance, the provision for the depreciation of the long-term equity investment is retained against the difference between the recoverable amount and the carrying value. Recoverable amount of marketable long-term equity investment is the market price of the investment less disposal expenses; if a long-term equity investment is not marketable, but its fair value can be measured

reliably, the recoverable amount of the investment is determined against the lower of its fair value less disposal expenses and the expected current value of cash flows from holding and disposal of the investment in the future. If a long-term equity investment is not marketable and its fair value can not be measured reliably, its recoverable amount is determined against the discount of its future cash flow at the market earnings ratio for the similar financial assets.

### 11. Deferred income

Deferred income comprises the governmental subsidy which shall be taken into the income statements in the subsequent period and the unrealized revenue of sale/leaseback transactions. The unrealized revenue of sale/leaseback transactions is amortized using actual interest method.

Asset-related governmental subsidy is recognized as asset and deferred income when received, and is contributed averagely to gains/losses of the period against the useful life of the asset. Income-related governmental subsidy used to recover related expenses or losses in the subsequent period is recognized as deferred income, and is taken into the income statement of the period in which the related expenses is recognized; those used to recover related expenses and losses occurred in this period are recognized directly as the gains/losses of the current period.

### 12. Income tax

Income tax expenses are recognized using balance sheet debt method. Where there is a difference between carrying value of asset and liability and their tax base, asset and liability of the deferred income tax occurred in accordance related regulations.

## **B. Main Taxes**

### **1. Income tax**

The applicable tax rate for business income taxes is 33%.

### **2. Value added tax**

Value added tax is set at 17% for petroleum and petrochemical products and 13% for natural gas and LPG.

### **3. Operating tax**

Operating tax is set at 3% for transportation and construction, and at 5% for service operations, transfer of intangible assets and real estate sales.

### **4. Supertax**

Urban tax is calculated and paid at 1% of turnover tax. Maintenance tax is calculated and paid at 5% of turnover tax. Construction tax is calculated and paid at 7% of turnover tax. Educational surtax is calculated and paid at 3% of turnover tax.

### **5. Excise tax**

Excise tax for gasoline and diesel is calculated according to the amount sold, at the rate of 278 yuan per ton for gasoline and 118 yuan per ton for diesel.

### **6. Personal income tax**

The employees are responsible for their own income tax, which is withheld and remitted by the company.

### **7. Royalties**

Royalties for crude oil and natural gas production are calculated according to the amount sold, at the rate of 8-30 yuan per ton for crude oil and 2-15 yuan per 1,000 cubic meters for gas.