

# Financial Report

## Consolidated Balance Sheet

Unit: Million RMB yuan

	2003	2004	2005
<b>Assets</b>			
Cash and cash equivalent	94,537.96	105,587.02	210,954.26
Short-term investment	48,150.10	64,143.16	20,848.07
Net bills and accounts receivable	20,624.81	23,053.52	25,314.31
Other accounts receivable	7,482.16	6,857.73	35,723.04
Inventories	50,118.44	71,086.76	95,601.83
Other current assets	10,910.61	15,618.88	26,446.85
<b>Total current assets</b>	<b>231,824.08</b>	<b>286,347.07</b>	<b>414,888.36</b>
Long-term investments	47,137.68	49,957.26	77,063.66
Fixed assets	499,767.53	494,386.37	618,662.64
Other long-term assets	29,547.75	83,003.52	49,610.07
<b>Total assets</b>	<b>808,277.04</b>	<b>913,694.23</b>	<b>1,160,224.73</b>
<b>Liabilities</b>			
Short-term debt	14,355.43	18,921.46	22,843.82
Bills and accounts payable	53,328.46	56,556.81	79,544.63
Other accounts payable	26,714.66	28,136.36	37,522.37
Taxes payable	30,002.36	24,894.79	26,653.54
Other current liabilities	68,663.28	75,511.86	86,921.98
<b>Total current liabilities</b>	<b>193,064.19</b>	<b>204,021.27</b>	<b>253,486.34</b>
Long-term debt	51,598.45	45,643.94	73,806.19
Other long-term liabilities	20,271.49	10,900.64	10,546.44
<b>Total long-term liabilities</b>	<b>71,869.94</b>	<b>56,544.58</b>	<b>84,352.63</b>
<b>Total liabilities</b>	<b>264,934.13</b>	<b>260,565.85</b>	<b>337,838.97</b>
Minority equity	46,530.93	57,762.11	74,924.00
<b>Owner equity</b>			
Paid-in capital	192,729.84	207,962.37	240,440.02
Capital reserve	200,254.54	214,559.11	226,190.21
Reserved surplus	103,827.60	172,844.78	280,831.53
<b>Total owner equity</b>	<b>496,811.98</b>	<b>595,366.27</b>	<b>747,461.76</b>
<b>Total liabilities plus total equity</b>	<b>808,277.04</b>	<b>913,694.23</b>	<b>1,160,224.73</b>

## Consolidated Profit Statement

Unit: Million RMB yuan

	2003	2004	2005
<b>Income from core business</b>	475,287.03	570,684.55	693,704.84
Less: Cost of core business	320,630.95	348,199.98	407,092.45
Core business tax and supertax	16,278.13	19,581.22	23,701.31
Plus: Income from procurement service and consignment	253.13	320.74	356.69
<b>Profit from core business</b>	138,631.08	203,224.09	263,267.77
Plus: Profit from other businesses	242.43	258.33	296.99
Less: Operating expenses	20,651.28	25,542.50	32,551.43
Management expenses	34,742.94	37,238.72	46,809.29
Financial expenses	1,315.28	680.35	1,242.73
<b>Operating profit</b>	82,164.01	140,020.85	182,961.30
Plus: Income from investments	1,824.44	743.20	1,907.06
Income from subsidies	541.58	641.31	1,297.25
Non-Operating income	1,231.93	2,450.60	1,897.99
Less: Non-Operating expenses	12,095.03	15,003.53	11,093.80
<b>Pre-tax profit</b>	73,666.93	128,852.43	176,969.79
Less: Income tax	28,835.93	42,828.93	54,404.94
Loss and gain of minority	7,989.65	13,831.24	16,696.17
Plus: Unconfirmed loss from investment	175.18	288.96	237.08
<b>Net profit</b>	37,016.53	72,481.22	106,105.77

## Principal Accounting Policies

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

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#### 1. Accounting systems

CNPC utilizes the *Enterprise Accounting Standards*, the *Enterprise Accounting System*, and the supplementary regulations.

#### 2. Fiscal year

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

#### 3. Standard accounting currency

CNPC's Mainland China operations adopt RMB yuan as the standard accounting currency, while our overseas entities adopt US dollars or local currencies as the standard accounting currency according to contracts or local regulations.

#### 4. Accounting basis and valuation

Accounting is based on the accrual system and adopts the debit-credit bookkeeping method. Assets will be valued according to the historical cost principle, and the provision of corresponding devaluation reserve will be available for any later devaluation.

#### 5. Foreign currency transactions

When actual foreign currency transactions occur, the base price of the exchange rate published by the People's Bank of China on the day when the transaction is conducted will be converted into RMB yuan for bookkeeping purposes, and the adjustment will be carried out according to the base price of the exchange rate at the end of the month. The resulting exchange profit and loss, if arising during the production operations, will be entered into the account book as a financial expense of the current period. Transactions arising during the preparation period will be entered into the account book first as long term expenses, and then entered as current profits and losses in the first month after the start of production operations. For transactions associated with the purchasing of a fixed asset, the capitalization of borrowing costs will be used as the principle for handling.

#### 6. Conversion of accounting statement in foreign currency

All asset and liability items in the foreign currency balance sheet will be converted into RMB yuan according to the base price of the exchange rate published by the People's Bank of China on the date of the balance sheet. Shareholders' equity items except undistributed profits will be converted according to the base price of the exchange rate published by the People's Bank of China on the day when the transaction is conducted. Undistributed profits item will be listed in the amount under this item on the converted profit appropriation statement. The income statement will be converted according to the annual mean exchange rate. The resulting balance will be listed in the foreign currency statement conversion balance on the converted balance sheet. All items on the statement of cash flow will be converted into RMB according to the base price of the exchange rate on the date of the balance sheet.

#### 7. Reserve for bad debts

(1) The range for the provision of bad debts: a. Accounts receivable; b. Other accounts receivable.

(2) The accounting method for calculating the reserve for bad debts: the reserve for bad debts will be calculated by the allowance method, except for PetroChina, PetroChina Hutchison Information Technology Co., Ltd. and China Petroleum Finance Co., Ltd. CNPC subsidiaries will arrange the provision of reserve for bad debts by the combination of individual judgment and aging analysis. The accounts receivable that are conclusively proven to be uncollectible will be listed as losses from bad debts and will be offset from the reserve for bad debts after the approval from the company GM's board or other high ranking officials.

## 8. Long-term investment

### (1) Long-term equity investment

The confirmation of the valuation and income from long-term equity investment: The long-term equity investment will be taken as the initial cost according to the actual payment or the established value when obtained. For equity investment amounting to less than 20% voting share of the total capital of the invested enterprise, or 20% or more but with no substantial impact, the accounting will be based on the cost method. For equity investment amounting to 20% or more voting share of the total capital of the invested enterprise, or less than 20% but with substantial impact, accounting will be conducted using the equity method.

### (2) Long-term financial claim investments

The confirmation of the valuation and income from long-term financial claim investments: Long-term financial claim investments will be taken as the initial cost according to the actual payment when obtained. For the long-term financial claim investment obtained by cash payment, valuation will be taken as the initial cost minus the bond interest to be received. The long-term financial claim investment that provides accrued interest will be entered as income from investment according to the accrual basis.

## 9. Profit distribution

The realized net profit distribution sequence and proportion: First used to cover any deficit from the previous year; 10% is allocated to the legal earned surplus reserve; 9% to the legal public welfare fund; a portion to the provision of free surplus reserve; and a portion as a dividend payment to common stockholders.

## 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 of gas.